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Current Events

The Concept of the Indonesian Archipelago

The General Election and Political Education

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the Socialist Countries

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Vietnam: Its Economy and the Cambodian Issue

Opinions

Book Reviews



CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES



THE INDONESIAN QUARTERLY

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Economic Growth

Commemorating the 37th anniversary of Indonesia's Independence, one subject mentioned by President Soeharto in his Address of State was that the country has been able to stabilize its economy in the midst of a world recession. In 1981, the rate of inflation in Indonesia was 7 percent, while in 1980 it was 16 percent. Meanwhile, Indonesia's foreign trade balance has suffered from the negative impact of the present world recession and economic crisis. Since early 1981, non-oil exports -- the products of estates and mining -- have suffered from the slump, caused by various protectionist measures taken by some consumer countries and also by the fall in prices for those export commodities on the international market.

Nevertheless, with the assurance of economic stability and real efforts to increase production in many different fields, the country's economic growth stood at 7.6 percent in 1981. Furthermore, according to the World Development Report of the World Bank, Indonesia has become a middle-income country.

In the agricultural field, in 1980 and 1981, Indonesia successfully increased its rice production considerably, increases being 13 percent and 10 percent respectively; so that in 1981 production reached 22.2 million tons, which exceeded the national target for rice production. Aside from the production of rice, the production of secondary crops such as maize, peanuts and soya beans has also increased. Increased production can also be noted for the sector of animal husbandry, both in livestock and poultry and also in their products, such as meat, eggs and milk.

In the estate sector, a number of different commodities such as coffee, rubber, and pepper as well as palm oil, which are also export crops, have increased, while the export value of estate products has declined considerably due to the world economic crisis. Production of sugar has also risen, so that the need to import sugar has been greatly reduced. In addition to this, the government will also continue its drive to increase the production of sugar, which has already begun.

Meanwhile, the production of processed timber has greatly increased, while the export of logs has fallen drastically. This conforms with the steps taken by the government to limit the export of logs so as to increase their value and to create new job opportunities.

In the coming years the development of the agricultural sector will be stepped up, so that it becomes a strong support for industry. To reach the point of take off into sustained economic growth, industrial growth is imperative. The President mentioned in his State Address that industrial development has gained momentum in 1982. Since the period of the first Five Year Development Plan, to date downstream industry has developed sufficiently in the case of miscellaneous industries. The President said further that efforts should be intensified to give depth to the structure and pattern of national industry by building projects for basic industry. These industries are customarily referred to as upstream industries or key industries, and in addition various intermediate industries will also be built. The construction of basic and intermediate industries began in early 1979 and was later intensified up to mid-1982; 52 key industry projects have been prepared covering chemical industries, basic metal industries, and the expansion of a number of production units of miscellaneous industries. The preparation of these industries is expected to be completed by the end of the third Five Year Development Plan in 1984.

Indonesia has entered the second half of the third Five Year Development period and is approaching that of the fourth Five Year Development Plan, in which the development of the industrial sector will be promoted, especially that of the machinery industry. The country must be able to begin production of its own equipment and machinery needs. Hence it stands to reason that the development of upstream industry makes the growth of downstream industry possible. Especially in connection with the machinery industry, the existence of basic industry allows the development of component, spare part and sub-assembly manufacturing plants and can afterwards make the establishment of machine manufacture possible, as was discussed at length by the Minister for Industry, A.R. Soehoed in his article "Industrial Development during Pelita III -- the third Five Year Development Plan."

For the acceleration of the process of industrialization, in order to achieve the targets as planned, various supporting factors are prerequisites. They include the synchronization of planning and its implementation, an appropriate capital investment policy, the organization of funding and of adequate banking services, the provision of sufficient energy at a fair price and the development of trade system, transportation as well education to improve managerial capabilities and skills. In addition, the transfer of technology, and Research and Development (R & D) should be taken into serious consideration.

Current Events

The 1982 Address of State

It has become a tradition under the New Order that, in marking the anniversary of Indonesia's independence, the president delivers a national address on various questions of statehood to a plenary session of the DPR (House of Representatives) which is broadcast direct to all of Indonesia. Of this speech of 16 August 1982, three important matters will be looked at: the Generation of 1945, the ideology of Pancasila as the single principle of all socio-political forces, and the situation of the Indonesian economy.

In relation to the Generation of 1945, President Soeharto said that in the history of a nation one generation generally plays a part for only about half a century. This is an early indication that the Generation of 1945 as the generation of liberators is approaching the final stages of its service. In this sense, it was called upon not to leave a time bomb. Therefore, before leaving the political stage, the Generation of 1945 should invite all its members -- whether they are in government or not -- to be aware that the reins of the mission they have led will soon be handed over to the succeeding generation. On this, the President said that the transfer of responsibility from one generation to the next is basically a natural and normal process.

It is based on this, that in the remaining period of their service, the Generation of 1945 must be able to lay the foundation of the framework in which the nation will achieve the ideals of its Proclamation. Therefore, the President called, in his speech, for everyone, to become aware once more, that Pancasila become constitutes the single state ideology. In addition to that, he also stressed that Pancasila should constitute the single principle of every political party.

If all socio-political forces are based only upon the principle of Pancasila, it can be said that the process of renewing the political life of Indonesia, begun

at the beginning of the New Order 16 years ago, and has now entered a more stable period. Existing socio-political forces thus need no longer raise the question of ideology or principle in whatever is their ideological purpose and they can concentrate upon programmes to advance the popular welfare. It is with this link that democratic life should be founded and cultivated.

It is only proper that the above invitation by the President be well-received because history has shown that the promotion of principles beyond that of Pancasila has given rise to various revolts, separatist movements, and extremist movements that endangered the unity of the state of Indonesia.

In his explanation of economic development, the President emphasized that the Indonesian nation should continue to believe in its capacity to continue development by ensuring continuity, growth corrections and reform in its nationhood and statehood.

Relating to this, the President spelled out in some detail several positive results of development to date, such as that Indonesia is now a nation of moderate income -- something achieved in the midst of a world overcome with various economic crises and a recession.

In addition to this, economic stability has been established, as indicated by: Firstly, national economic growth in 1981 was quite high, 7.6 percent. When compared to the growth of other nations, both industrial and developing, this level of growth is amongst the highest. Secondly, devaluation has not been necessary because current exchange reserves are sufficient and efforts to encourage non-oil exports have been taken. Thirdly, the prices of goods has been controlled so that in 1981 the inflation rate reached only 7 percent and in the 1981/1982 financial year was 9.8 percent. The latter figure was due to an oil price rise of 60 percent. Fourthly, agricultural production, especially of rice, continued to increase. In 1981 it reached 22.2 million tonne, exceeding the targeted figure for production during the final year of the Third Five-Year Plan of 20.5 million tonne, so that food self-sufficiency will be achieved.

In the area of industry, stress has been placed on increasing the effort to deepen the structure and pattern of national industry by the construction of basic industry or down-stream industrial projects, as well as establishing intermediate industry.

Behind these economic successes, the President also pointed to several challenges to be confronted. These include the decline in non-oil exports as a result of the protectionism of several consumer nations and the decline of the price of export goods on the international market, as well as the effort needed

to expand employment in areas outside agriculture and the implementation of large-scale transmigration - which the President declared the greatest challenge for the future.

M. SUDIBJO

Indonesia-Papua New Guinea Relations

By the end of Julius Chan premiership, relations between Indonesia and Papua New Guinea were strained. There seemed to be some attempts to blow up the sensitive border issue and to interfere with the Indonesian policy of transmigration in Irian Jaya. Iambakey Okuk, PNG Vice Prime Minister at that time, said: "While we enjoy democracy and freedom, the people of West Papua do not... While we enjoy the benefit of development and progress, our brothers and sisters are being forced to share it (their land) with Indonesian settlers and transmigration from Java" (*Asia Week*, June 25, 1982). However, Indonesia did not react since his statements were considered unofficial. Moreover, Indonesia has been eager to maintain friendly relations with Papua New Guinea. So some Indonesian politicians considered Okuk as seeking popularity due to the June General Elections in which a border problem became an interesting political issue.

But his remarks on Irian Jaya are unfriendly. He criticized the development in this province, which is an integral part of Indonesian national development. Consequently, it was considered as an interference in Indonesian domestic problems. What is more, it was in contradiction with the 1979 Basic Agreement on Border Arrangement in which Indonesia and PNG committed themselves to further foster cooperation of good will, and understanding between the two countries and to cooperate in the administration and development of the border area for the mutual benefit of their peoples.

The two countries' relations became worse when Julius Chan sent a diplomatic note through the Indonesian Embassy in Port Moresby alleging that there were some incursions by Indonesian Armed Forces into PNG's territory on 14-27 May, 1982. On June 9, the Indonesian Department of Foreign Af-

fairs responded by sending an aide memoire to the PNG Government (through the Embassy of Papua New Guinea) disproving this allegation. Indonesia clarified the issue by explaining that some villagers from Selmus, on their own initiative freed 58 employees (including a Malaysian) of PT Hanurata Timber Company kidnapped into PNG's territory by GPL/OPM elements from October 1981 to May 1982. Indonesia also questioned the PNG for not informing about this incident until the villagers had liberated these hostages. For the two countries, as stipulated in the Basic Agreement, shall take into account, where appropriate, the desirability of exchanging information and holding consultations with each other on border crossing for the purpose of evading justice and the use of their territories in a manner inconsistent with any provision of the agreement.

However, the PNG Government has already shown its dissatisfaction by withdrawing its ambassador from Jakarta and forcing Indonesia to cut down the size of its diplomatic mission in Port Moresby (*FEER*, July 9, 1982).

Indonesia regrets that negative attitude that may affect the two countries' friendly relations. Thus far they have reached some positive results through bilateral consultations/meetings in accordance with the 1979 Basic Agreement on Border Arrangement. Both countries have agreed to set up a joint border committee and to improve border communications. Four memorandums of agreement were signed in Port Moresby, the PNG capital, on August 4, 1982. The memorandums are as follows: (a) Memorandum of understanding on the establishment of the joint border committee; (b) Memorandum of understanding on the establishment of a radio circuit; (c) Memorandum of understanding on the survey and demarcation of the international border; and (d) special arrangement on traditional and customary border crossings.

The two countries's Joint Border Committee also held a meeting in Den Pasar, Bali, from August 24 to 27, 1982, to discuss concrete steps for implementing the memorandums of understandings and special arrangements. Both sides stressed the importance of promoting special bilateral cooperation on traditional border crossings, exchanges of information on border development and border communications. Non-traditional border crossings were also among the important issues discussed at the meeting. The two delegations shared the same opinion that both countries should abide by the 1979 agreement dealing with the solution of possible common border problems. They also expressed their satisfaction over the mutual understanding and goodwill shown by the two sides to maintain proper neighbour relations.

After Michael Somare has been reelected as Prime Minister, there is an expectation that Papua New Guinea will restore its friendly relations with Indo-

nesia. Somare said that he would continue his stable relationship with Indonesia, built during his eight years as Prime Minister until 1980, during which he hosted a state visit by President Soeharto (*FEER*, July, 1982). The official visit of the Foreign Minister of PNG, Rabbie Namaliu, in Indonesia was proof of Somare's resolve. Rabbie Namaliu visited Indonesia, among other things, to exchange the instruments of ratification of the maritime border agreement on the 10th of September, 1982, as the follow up of the agreement signed in 1980 concerning border relations between Indonesia and Papua New Guinea. Rabbie Namaliu said in Jakarta that the agreement and a series of memoranda of understanding signed lately in connection with Indonesia-PNG border relations, were convincing evidence of the continuing and growing commitment of both countries to ensure steady and meaningful progress in securing development objectives.

Ronald NANGOI

Cambodia: The Central Issues

A Coalition Government of Democratic Kampuchea was eventually established in Cambodia on July 7th. In the Coalition Charter signed by Prince Norodom Sihanouk of the Moulinka group, Son Sann of the Khmer People's National Liberation Front (KPNLF) and Khmer Rouge's Khieu Samphan in Kuala Lumpur on June 22th, it was stipulated that they would successively function as President, Prime Minister and Vice President. According to the charter, the Coalition's primary goal is to mobilize all forces for liberating the Cambodian soil from the Vietnamese and to implement the declaration of the International Conference on Kampuchea (ICK) and other UN resolutions on that country.

The establishment of the Coalition was applauded ASEAN leaders as a positive action, which would be important not only for defending the seat of Democratic Kampuchea in the United Nations but also for putting pressure on Vietnam. In search for support the President of the Coalition, Prince Sihanouk, visited five ASEAN countries in early July. He said in Bangkok on July 4th that he was very satisfied with the political, moral and diplomatic support given by the ASEAN nations. He was assured that ASEAN would

continue to campaign vigorously for defending the Democratic Kampuchea's seat in the UN. According to an observer of international politics in Jakarta, ASEAN would not support the Coalition with military aid, but they would stress on giving political assistance since the ultimate goal of the Coalition cannot be achieved merely by fighting. Individually, however, the ASEAN countries are free to give any military aid to the Coalition. In fact, Singapore, Malaysia and Thailand have given their assurance to provide the Coalition with military aid.

President Soeharto said in his address of state before the plenary session of the DPR (House of Representatives) on the eve of this year's Indonesia's Independence Day, that the presence of foreign troops in Kampuchea was obvious violation of good neighbour principles and would hamper the Kampucheans in determining their own government and their own future in a democratic way. Vigorously Indonesia -- and ASEAN -- support the Coalition. Nevertheless, the attitude of Indonesia on this issue has been more moderate, especially toward Vietnam. Accordingly Indonesia can bilaterally approach Vietnam to explain ASEAN's attitudes and interests with regard to the South-east Asia region and to develop a better understanding for the policies of Vietnam as to reach a viable solution.

On the other hand, Vietnam, Laos and Heng Samrin regime disapproved of the establishment of the Coalition. They accused the "so-called coalition government of the Khmer reactionaries" of being against the Kampuchean people. The Heng Samrin regime, for example, said that the goal of the Coalition was irrational. It claimed that the presence of Vietnamese troops in Cambodia was the wish of the Cambodian people, and based on an agreement between Cambodia and Vietnam. Nevertheless Vietnam is clearly worried about the possible effects of the establishment of the Coalition in international forums. Consequently the recent visit of Vietnam's Minister of Foreign Affairs Nguyen Co Thach, to Burma, Singapore, Malaysia and Thailand was part of his diplomatic mission in international forum to counter the Coalition. A competitive statement was also issued. Part of the communique of the sixth conference held in Ho Chi Minh city, July 6-7, by the Foreign Ministers of Laos, Heng Samrin Regime and Vietnam, stated that the People's Republic of Kampuchea and the Socialist Republic of Vietnam had reiterated their decision to withdraw part of the Vietnamese troops from Kampuchea. This announcement aroused the reaction of particularly ASEAN leaders. Indonesian Foreign Minister Mochtar Kusumaatmadja considered the partial withdrawal of the Vietnamese troops from Kampuchea as a very interesting development. According to him, the Soviet Union and India had been informed of this plan and he was informed by the Vietnamese deputy foreign minister in New York last June. Thailand, however, denounced it, claiming that the Vietnamese troops still pose a threat to Thailand greatly affecting its security.

According to the Vietnamese Ambassador in Jakarta, Mr. Trinh Huan Lang, total withdrawal of Vietnamese troops is most unlikely to happen on account of the still prevailing Chinese threat. Vietnam knows that Heng Samrin has not enough military power to defend his regime against the opposition groups. Furthermore, Vietnam will never allow a pro-Beijing regime to rule over Kampuchea.

A solution to the conflict needs to take Vietnam's interest and Thailand's concern into serious consideration aside from the fact that the Coalition has been proclaimed and that its future will depend on its success in getting recognition, in keeping its seat in the UN and in enlarging its influence among the Kampuchians.

Endi RUKMO

The Concept of the Indonesian Archipelago

Mochtar KUSUMAATMADJA

During the last few years the Indonesian public has become acquainted with the concept of the Indonesian archipelago (the Nusantara Concept), especially since 1973 when the archipelagic concept was declared in Decree No. IV of the People's Consultative Assembly (MPR) to be the concept that forms the basis of Indonesia's national development. The problem we often face is that, for the public at large, it is not really clear what is the true meaning of the Nusantara Concept.

For those who are well acquainted with it, the problem is even more pressing since the time has come that the concept, which was drawn up several years ago, should be seriously implemented. The reason is that now it can be said that the first stage in the creation of the Nusantara Concept as a national, living reality has already been achieved with the recognition of the principle of the archipelagic state as the physical forum for the Nusantara Concept -- not just nationally but internationally as well.

THE YOUTH PLEDGE

The birth of the ideal of Indonesia as one nation in the modern sense began with the Youth Pledge of 1928 which expressed the ideals of one nation, one language and one homeland ("tanah air"): Indonesia. With the birth of the above conception of Indonesia there was also born the conception of a single

This article is translated from "Wawasan Nusantara," a paper delivered at the Law of the Sea Discussion Panel, 1982, held by the Law of the Sea Institute (LBHL) in cooperation with the magazine, *Equator*. Prof. Mochtar Kusumaatmadja is currently the Indonesian Foreign Affairs Minister.

nationality that would overcome the regional or ethnic conceptions tied to the islands that make up the Indonesian archipelago such as Java, Sumatra, Kalimantan, Sulawesi and so on. As a political concept, Indonesia -- in the slogan 'one nation, one language, one homeland' -- becomes something more significant than simply a collection of hundreds, or even thousands, of islands.

The ideal of Indonesia as one nation in this all-encompassing sense was the stimulus which inspired the nationalist movement, seeds of which had been sown in 1908, that would develop into a great force opposing the Dutch colonial government of the time. A fact that cannot be denied is that the ideal of an independent Indonesian nation was able to overcome all the differences of religion, ethnic group, region and social class. It would not be wrong to say that the Youth Pledge was the first step in the journey towards the birth of the Nusantara Concept.

On the 17 August 1945 Indonesia proclaimed its independence. With Indonesia's Proclamation of Independence there was begun a new stage with the existence of Indonesia as a sovereign and independent nation. The region of the proclaimed Republic of Indonesia included all the area of the former Dutch East Indies -- no more and no less. The government of the Republic of Indonesia was formed and organized based on the 1945 Constitution which was affirmed several days after the independence proclamation. Pancasila was determined as the state philosophy of the Republic of Indonesia and its ideal is 'Unity in Diversity.'

From the point of view of thoughts on the unity of state and nation, Indonesia's armed struggle against Holland was also a conflict between two contradicting views. On the one hand, the 1945 Proclamation of Independence strove for the national unity of the Republic of Indonesia as the realization of the Youth Pledge whereas, on the other hand, Holland still practised the politics of divide and rule by establishing puppet states in the areas still successfully occupied such as the State of East Sumatra, the State of South Sumatra, the State of Pasundan, the State of East Indonesia, and so on.

On the 13 December, 1957 the government of the Republic of Indonesia issued a declaration concerning the area of Indonesia's territorial waters which reads as follows:

"That all waters around, between and connecting the islands, or parts of islands, that make up the landmass of the Indonesian Republic, disregarding their breadth, are true parts of the regional area of the Republic of Indonesia and therefore are a part of the internal waters or national territorial waters under the absolute sovereignty of the State of the Republic of Indonesia. The innocent passage of foreign shipping in these territorial waters is guaranteed as long as, and only if, it does not conflict with the sovereignty and security of the Indonesian

state. The determination of territorial sea limits of a distance of 12 miles measured from lines connecting the outermost points of the islands of the Republic of Indonesia will be secured by law."

The considerations that prompted the Indonesian government to issue a declaration concerning the area of the Indonesian territorial waters were:

1. That the geographic shape of the Republic of Indonesia as an archipelagic state consisting of thousands of islands, has characteristics and features requiring its own special regulation;
2. That for the territorial unity of the Republic of Indonesia all of the archipelago and its connecting seas must be considered a unified whole;
3. That the determination of the territorial sea limits inherited from the colonial government as set down in the "Territoriale Zee en Maritieme Kringen Ordonantie 1939" Paragraph 1 article 1, are no longer consistent with the interests of safety and state security of the Republic of Indonesia;
4. That every sovereign state has a right and responsibility to take the measures it regards as necessary to protect the unity and safety of the country.

It should be stressed that at the time this government declaration concerning the Indonesia's territorial waters was issued, our country was facing threats both from within and from without. From without, because the quarrel with Holland over Irian Jaya (then "West Irian") was reaching a climax after failure to settle it by peaceful means; from within because the state was threatened by regional separatist movements.

The government declaration concerning Indonesia's territorial waters was an important and decisive event in the government's effort to reexamine and change the method of determining territorial sea limits which it had been attempting since mid-1956 when an Interdepartmental Committee was formed to reexamine the question of territorial seas and the maritime environment. The government declaration on Indonesian territorial waters was not a product of the work of the above mentioned committee. The committee itself had actually already prepared a plan for maritime laws, to replace the old 3-mile limit, that would in effect change the 3-mile limit into a 12-mile limit measured from the low-tide mark. With the acceptance and proclamation of the Declaration of 13 December 1957 by the government, the old concept was automatically abolished.

From the text of the government's Declaration of 13 December 1957 and from the considerations which were the basis for this measure, it should be clear that security and defence were very important aspects, and may even be said to have been one of the chief foundations, for this government policy on

Indonesia's territorial waters. Apart from that, the other foundation of guaranteeing the territorial integrity of Indonesia as one intact whole encompassing elements of land and sea, has a political aspect of no less importance.

In facing a situation where it was threatened by (political) disintegration, the government at the time needed a concept that could simply and clearly be made into a symbol of the unity and union of the Indonesian state and nation. The Nusantara Concept, as formulated in the 13 December 1957 government declaration, answered this need.

After explaining the meaning of the Nusantara Concept and the considerations that prompted the government to issue the 13 December 1957 Declaration, the implications and consequences of the Nusantara Concept should be explained in the territorial sense. The declaration that made "all territorial waters between and near the islands" a part of national territory has legal implications important for international shipping, since a part of the high seas that were formerly independent with this Indonesian government act became part of national territory.

Keeping in mind that we cannot simply deny the freedom of shipping in such territorial waters, which has long existed, the 13 December 1957 Declaration firmly states that the "passage of foreign ships through Indonesian territorial waters is guaranteed as long as it does not harm the security and safety of Indonesia." Thus, it should be clear that the right of innocent passage of foreign ships forms an integral part of the Nusantara Concept. This was consciously done to reduce the opposition to the Nusantara Concept, especially from maritime states.

With this guarantee of the right of innocent passage through Indonesian waters a balance was sought between Indonesia's national interests, in the extension of its area by making waters between islands of the archipelago its territorial waters, and that of international shipping interests such that naval passage through these waters for peaceful purposes would continue unobstructed.

Not long after the 13 December 1957 Declaration was issued, several states said they did not recognize Indonesia's claim to the waters around and between her islands. Amongst the states that stated their disagreement were the United States, Australia, England, the Netherlands and New Zealand, whereas those supporting it were only the USSR and the People's Republic of China.

In view of the negative reaction from many states, the government considered a policy of postponing the enactment of an Indonesian Territorial

Waters Act along the lines of the Nusantara Concept. Another reason for the postponement of its enactment was that there was to be held a Law of the Sea Conference in Geneva beginning in February, 1958. It was felt better to see the general international reaction in this forum first, before casting the Nusantara Concept in the form of Law.

INTERNATIONAL RECOGNITION: THE NUSANTARA PRINCIPLE IN INDONESIAN LAW

The attempt to obtain recognition of the regulation of territorial seas based on the archipelagic concept through the international forum of the Conference of the Law of the Sea in Geneva in 1958, did not bring the expected results since the participating states that were directly involved in and that gave attention to this question were too few in number.

With there being no decision taken concerning this question at the 1958 Geneva Law of the Sea Conference, the Indonesian government was faced with two choices:

1. Continue with the implementation of the 13 December 1957 Declaration on the territorial waters of Indonesia by the enactment of laws; or
2. Leave the policy of Indonesian territorial waters as outlined in the 13 December 1957 Declaration, which implied returning to the traditional concept and method of measuring maritime territory. The government decided to continue with the policy outlined in the Declaration of 13 December 1957 and 18 February 1960 after being delayed for over two years, the regulation of Indonesia's territorial waters which had been roughly drafted in the 13 December 1956 Declaration, was passed as law by using government ordinance procedures instead of legislative acts of parliament.

If the essential points are taken from the principles of the Nusantara Concept, as proclaimed in Ordinance No. 4, 1960 on Indonesian territorial waters, they are as follows:

1. For national unity, regional integrity and economic unity straight baselines are to be drawn connecting the outermost points of the outermost islands;
2. The state have sovereignty over all waters located within these baselines including the seafloor, the earth beneath it and the above airspace with all the natural resources contained within them;
3. Territorial sea zones of 12 miles width are to be measured from these baselines;

4. The right of innocent passage of sea traffic and foreign ships through archipelagic waters is guaranteed as long as it does not harm the interests of the coastal state or interfere with its security and order.

The form and structure of Ordinance No. 4, 1960 is very simple and only consists of four paragraphs.

These provisions essentially changed the method of determining Indonesian territorial seas from the method where the 3-mile sea limit was measured from the low-tide mark of each island, to where the 12-mile territorial limit was measured from straight baselines drawn from the outermost points of the outermost islands. In all there are 200 base points connected by 196 straight baselines with an overall length of 8,069.8 nautical miles.

The drawing of these straight baselines had two consequences:

1. The resulting territorial sea zones encircled the Indonesian archipelago;
2. The waters located within the base-lines changed their status from the "open sea" to become territorial waters. So that this change in status did not interfere with the right of foreign shipping's passage, which had existed before the method of determining territorial sea limits, Paragraph 3 stated that these territorial waters were open to the innocent passage of foreign sea transport.

Technically, the legislation for the change created by Paragraph 1 of Ordinance No. 4, 1960 was not in fact great: only Paragraph 1, Articles 1 to 4 of the "Territoriale Zee en Maritieme Kringen Ordonantie 1939," (Staatsblad 1939 No. 442) changed. But the resulting change to the structure and extent of the area under the sovereignty of the Indonesian state was very great.

According to rough calculations, the above method of determining Indonesia's territorial sea limits causes the previous state area of 2,027,087 sq. kilometres of land to become about 5,193,250 sq. kilometres (land and sea), thus a geographic increase in the form of territorial waters of about 3,166,163 sq. kilometres.

Several years after the enactment of Ordinance No. 4, 1960 on Indonesia's international waters it was felt necessary, especially by field officers (on the seas), to emphasize the right of innocent passage for foreign ships in the waters of the archipelago which was, in principle, guaranteed by the above Ordinance No. 4, 1960.

Therefore, on 28 July 1962 the government drew up Government Ordinance, No. 8, 1962 on the innocent passage of foreign transport in Indonesian

waters. In Paragraph 1 it is affirmed that "the innocent passage of foreign shipping in Indonesia's territorial waters, which previous to the operation of Ordinance No. 4, 1960 were high seas, as Indonesia's territorial seas is guaranteed."

What is meant by innocent sea passage is "...shipping for peaceful purposes that crosses Indonesia's territorial waters from the open sea to an Indonesian harbour, and the reverse, and from the open sea to the open sea" (Paragraph 2). The passage of foreign ships is considered peaceful "...while it does not conflict with the security, public order, interests and/or interfere with the peace of the State of the Republic of Indonesia" (Paragraph 3).

The innocent passage of foreign ships is encouraged to pass through the shipping lanes as contained in pilots' logs that circulate in the shipping world. Stopping, casting anchor and/or going back and forth without valid cause in Indonesian waters is not within the understanding of innocent passage according to this government regulation.

The President of the Republic of Indonesia may temporarily revoke the right of innocent passage in particular sectors of Indonesian waters whenever such an act is thought necessary to preserve national security and sovereignty.

What draws our attention is the decision concerning sealanes or shipping lanes. Whenever the Naval Commander-in-Chief has determined such shipping lanes, then warships (and government vessels that are not tradingships) and fishing vessels must pass through these sealanes. Foreign warships that pass through such shipping lanes do not have to satisfy the condition of giving valid notification of peaceful passage in the archipelago's seaways.

The above shipping lanes would be determined by the Minister for Defence and Security. In practice it can be said that the national provision concerning the innocent passage of foreign ships is generally observed and that compulsion for observance of legal decisions concerning national territorial waters is carried out satisfactorily, especially if one keeps in mind the extent of the territorial seas that must be patrolled and the limitations on available equipment.

The above national decision concerning the innocent passage of foreign ships, while not completely implemented, is of significance as proof of Indonesia's true determination to continue to guarantee the preservation of the right of innocent passage for foreign ships in archipelagic waters.

The above-mentioned decisions form the basis for a decision on the innocent passage of foreign ships, including warships, that can now be found in the

new international law of the sea which was recently concluded in the Third Law of the Sea Conference.

Taking into account the importance of this principle of the archipelagic state for the survival of the country it was felt necessary to secure it by attempting to gain international recognition.

To reach this objective, two methods were used:

1. The method of attempting direct international recognition through international convention, apart from that of the Third UN Law of the Sea Conference, the fostering of which support is carried out through various other multilateral fora such as the Asia-Africa Legal Consultative Committee, the Islamic Conference, the Organization of African Unity, the Non-Bloc Conference as well as direct, bilateral approaches;
2. Indirect methods, such as arranging agreements for determining state boundaries with neighbouring states and by including a special territorial clause in bilateral agreements on economic, finance, social, cultural or technological matters which directly or indirectly result in a recognition of the archipelagic state principle.

These two different methods have been consciously pursued because, based on the experiences during the First UN Law of the Sea Conference in 1958 in Geneva and the second in 1960, it is realized that obtaining international recognition in such a way is certainly not easy. Therefore, besides working for international recognition through convention, an effort is also made to create agreements with neighbouring states on the international law of the sea.

The effort to gain international recognition through international convention has been successfully carried out with the acceptance of clauses regulating archipelagic states in the new Law of the Sea Convention. The definition of an archipelagic state according to the Convention clearly indicates that the provisions aim to include the regulations of the Indonesian archipelago, particularly the provisions concerning the ratio of land territory to sea (between 1:1 and 1:9), and the limit to the total and length of the baselines (100 and 125 miles).

The provisions on the passage of warships give attention to the interests of the large maritime states without sacrificing the security interests, territorial integrity or sovereignty of the archipelagic state. To satisfy the interests of maritime states -- especially the superpowers -- that could not possibly accept an archipelagic state principle that paid no attention to the passage of their warships, the system of innocent passage and of sealanes to be found in Indonesia's laws has been developed so that there is a balance reached between the interests of an archipelagic state and the interests of large maritime states.

The passage of warships and other prohibited ships (fishing vessels and government ships) is restricted to archipelagic sealanes. Beyond these sealanes foreign ships can move only according to the provisions of innocent passage, and the archipelagic state has the right to close off certain sections of the waters of the archipelago (temporarily) for security reasons.

Even though the system of passage of foreign ships in the Convention uses the term "sealanes," the provisions regulating it do not mean routes in the true sense of the word.

What are called sealanes in the Convention are actually passage routes in the form of a series of interconnecting axes that are drawn from the mouth of one strait to the mouth of another strait. This system of axes has been able to overcome deadlocks that arise in discussions because there is no agreement on the width of sealanes as they are commonly understood.

The present stipulation, which states that a foreign warship while passing through an archipelago can deviate by as much as 25 miles (to the right or left) from an axis, does not give rise to the jurisdictional complications that can occur whenever "sealanes" are interpreted in their true sense.

An accommodation between the interests of archipelagic states and that of other states (especially neighbouring states) that have an interest in the territorial archipelagic waters, is reached in clause 51 which systematizes the agreements currently operating, traditional fishing rights and the existing sea-cable system.

Safeguarding the coordination of the archipelagic regime, which is carried out through agreements with neighbouring states, covers all forms of public international law of the sea agreements -- especially that of demarcation agreements on the limits to the continental shelf, fishing limits, territorial sea limits.

It should be explained that to safeguard the exploration for and the exploitation of oil and natural gas deposits beyond the limits of archipelagic waters, especially in the South China Sea, the Indonesian government issued a government ordinance on the 17th February 1969 concerning the Indonesian continental shelf.

This declaration principally states that ".....all natural resources to be found on the sea floor and the earth beneath it to a depth of 200 metres or more, to a depth for which exploitation is still feasible, are the unconditional property of the Republic of Indonesia." Differing from complete sovereign

jurisdiction, Indonesia's jurisdiction over the continental shelf does not extend to the living resources in the waters above the continental shelf nor to the airspace above it.

Since 1969 Indonesia has established agreements for the determination of sea limits with its neighbouring states on the limits to the continental shelf, territorial seas, fishing zone limits and especially the treaty on the Nusantara Concept with Malaysia.

By establishing these agreements with Indonesia these states have indirectly acknowledged Indonesia's legal regime over the archipelagic territorial waters since the limits determined by these agreements are legally measured from the outermost points of the outermost islands according to the archipelagic state conception. Thus a state that establishes an agreement on the limits to the continental shelf has also directly recognized the concept of the archipelagic state, which in the case of Indonesia is determined by Ordinance No. 4, 1960.

The agreements on territorial sea limits with Malaysia and Singapore has the same result since in both these cases the baseline used for determining the limits is the same as the baseline used to determine the territorial sea. There is one bilateral agreement which, in relation to the effort to obtain this recognition, has a special position: the Indonesia-Malaysia treaty, involving Malaysia's recognition of the Nusantara Concept and the recognition by Indonesia of Malaysia's rights in her archipelagic waters, which was signed in Jakarta on the 25th February, 1982.

This treaty has a special meaning for the recognition of the legal regime of the archipelagic state because, as is clear from its title, the treaty explicitly recognizes the Nusantara Concept with the response that Malaysia's preexisting rights and interests in the waters of the Indonesian archipelago were recognized.

With the recognition of the regime of the archipelagic state, both universally through international convention and bilaterally and regionally, the archipelagic state principle should have become well-accepted in international law and Indonesia needs not be worried about threats from any quarter whatsoever.

This is of significance for the resulting benefits implied in the application of the archipelagic state principle - in determining the extent of the country's area and the use of the natural resources contained within it in the interest of national development.

For establishing the Nusantara Concept as the concept that forms the basis of national development, this international recognition is important because

with such recognition the land and waters of the archipelago, the physical forum of the Nusantara concept, will not be violated or damaged by a third party.

The provisions concerning the archipelagic state are the most important for Indonesia in the new International Law of the Sea Convention. Nevertheless, several other provisions are also important for us because they involve our interest in natural resources.

One of these is the provision on the continental shelf. According to the new definition, as found in Paragraph 76 of the Convention, the new understanding of the continental shelf has been separated from and no longer has any connection with the continental shelf in the geological sense. Paragraph 76 determines a 200-mile limit from the baseline where the continental margin does not extend that far. Where a "natural prolongation" of the land area exceeds 200 miles then the outer limit is the outer margin of the continental boundary.

Because to the north Indonesia borders on other states (Thailand, Malaysia, the Philippines and Vietnam), the new provisions on the continental shelf is of practical significance only for the seafloor to the west of Sumatra and to the south of Java and the Lesser Sunda islands.

The provisions in the new Law of the Sea treaty concerning Exclusive Economic Zones constitutes a political confirmation of those states that during the last few years have unilaterally declared their own 200-mile Exclusive Economic Zone ... including Indonesia.

With the decision on its Exclusive Economic Zone in 1981, Indonesia increased its jurisdiction over natural resources by as much as 2,000,000 sq. kilometres beyond the approximate 3,000,000 sq. kilometres contained in the waters of the archipelago. Differing from the jurisdiction over the continental shelf, limited to the seafloor and the earth beneath it, the decision by Indonesia on an Exclusive Economic Zone includes the natural resources to be found in the waters above it or the energy that may be produced from those waters.

The provisions in the Convention that regulate the protection of the sea environment (Paragraphs 192-237) and research (Paragraphs 238-278), provide sufficient authority and benefits to coastal states. The authority to regulate and to benefit from the collection of data is not restricted to territorial seas but also covers the continental shelf and the Exclusive Economic Zones.

Especially in the Indonesian case, the scope of its valid authority and rights, in the two above matters as determined by the Convention, greatly in-

creases since the measurement of its valid zones of control are determined according to the baselines of the Indonesian archipelago. Also important for Indonesia, as a country bordered by straits used for international shipping, is Part III of the Convention -- particularly Paragraphs 41 to 44 which determine the rights and responsibilities of states on the shores of straits and which balance the responsibility of guaranteeing the smooth passage of ships through the straits with the protection and security of those states' interests in the areas of customs, finance and environmental protection.

In particular, Paragraph 41 which authorizes the coastal states to create sealanes and sea-traffic separation schemes, is very important for Indonesia which has the straits most used by international shipping in the world.

Indonesia together with Malaysia and Singapore successfully formulated an interpretative statement on Paragraph 41 which was accepted by the large maritime states, the most important users of the Malacca-Singapore Strait, so that there is now a special agreement attached to Paragraph 41. The Interpretative Statement, read to the last plenary session of the Conference on April 30, 1982, is most significant since it constitutes an official confirmation of the Straits of Malacca Traffic Separation Scheme (TSS) which has been operating to date and has been agreed to by IMCO. The Straits of Malacca TSS was created by Indonesia, Malaysia and Singapore in common to prevent a repetition of the 'Showa Maru' disaster that occurred in 1975.

The uniqueness of the Straits of Malacca-Singapore TSS is that for the first time in the history of shipping and sea navigation there is included a provision on the "Under-Keel Clearance" (UKC). This is the clearance that must be maintained by a tanker between its lowest section and the seafloor when passing through the Straits of Malacca-Singapore. After the creation of the TSS for the Straits of Malacca-Singapore, including this UKC provision, never again will tankers run aground in this strait.

It should be known that this stipulation on the size of tankers in the form of the Under-Keel-Clearance provision was created on the special urging of Indonesia.

Concerning the mining of mineral resources on the international seabed area, one of the most important sections of the Convention -- since it is a realization of the aspiration to use this mineral wealth for the 'Common Heritage of Mankind' -- and the most important provision for Indonesia, is the provision in Paragraph 151 concerning production policies. It includes a restriction on the production of minerals from the international seabed to protect the producers of the same minerals on land.

Indonesia, as a land-based producer state, has a great interest in the provision limiting such production to protect its production of minerals -- especially in the case of mining nickel ore.

THE SIGNIFICANCE OF THE NUSANTARA CONCEPT

Following the history of the birth of the Nusantara state principle beginning with the Juanda Declaration in 1957, its further development until its promulgation in Ordinance No. 4, 1960 and its securing through discussions and diplomatic activities it is proper that the meaning of the archipelagic state principle be explained.

Besides being important from the point of view of defence and politics, the archipelagic state principle which became a reality for the Republic of Indonesia with Ordinance No. 4, 1960, also has significance when seen from the economic point of view.

By affirming Indonesia's sovereignty over all the territorial waters in the vicinity of/and between its islands, we have at the same time stated that all natural resources whether mineral, animal or vegetable are Indonesia's national property. Also included is energy both in the form of mineral resources, such as oil and natural gas, and energy which may be produced by natural forces.

The archipelagic state principle also provides a strong foundation or basis for Indonesia's national transportation and communication policies both on sea, by providing clearer physical support to the "cabotage" principle, and for air transport and communication.

The unity of the islands and surrounding seas stated by the archipelagic state principle, and the acknowledgement of the actual unity between life on land and in the seas of the archipelago implied within it, provides a very strong foundation for Indonesia's archipelagic policy on the management of the environment of the archipelago.

The archipelagic state principle is actually important for safeguarding the wholeness and unity of the Armed Forces and greatly assisted the national and Armed Forces leadership in the second half of the 1960's to overcome the tendency of the forces to each follow their own course as a result of domestic political developments during that critical period.

The archipelagic state principle was able to overcome the danger of dissension that arose at that time because each force was following its own path with its own ideas. The crisis was overcome and there was born the Nusantara Concept with the Armed Forces firmly united and integrated.

From this explanation it should be clear just how significant is the archipelagic state principle for all aspects of the life of the Indonesian nation. Because of this it is not surprising that the National Assembly (MPR) in 1973 determined that the Nusantara Concept was the concept that gave life to national development in all its aspects: political, economic, social, cultural and that of defence. Whenever it is asked what is its relationship with the archipelagic state principle, which in the international law of the sea exists as a conception of an island state or an archipelagic state (the Indonesian islands) the answer is that whereas the archipelagic state principle is a concept of national territory, the Nusantara Concept is way of looking at the political unity of a nation and people that subsumes the national geographic reality of an archipelagic state. It can also be said that the conception of the unity of land and seas contained in the concept of the archipelagic state constitutes the physical forum for the archipelago's development.

The emergence of the archipelagic state principle, as a concept of the law of the sea, and the growth and development of the archipelagic state concept into the Nusantara principle were historical events encouraged by the political requirements of the time. Hence it would not be false to regard the policy and steps pursued by Indonesia since 1957 as political actions.

The conception of the archipelagic state principle, as a manifestation of Indonesia's political thinking, was established with the declaration of the Nusantara Concept as the fundamental basis for the implementation of the broad guidelines of state policy by the decree of the MPR No. 4, in 1973.

Affirming the Nusantara Concept as a conception of the unity of the territory, people and country which considers Indonesia as an indivisible totality including country (land) and sea (waters), constitutes the final stage in the development of the archipelagic state conception begun at the end of 1957.

It would not be exaggerating to say that it is in this way that the effort or the journey of the Indonesian nation towards rediscovering its own identity has been carried out. The reality of the unity of country (land) and seas (waters) has in fact long been present in the consciousness of the Indonesian people. This is reflected in the word for homeland, "tanah air" (land and waters), a term or expression which cannot be found in other languages.

From the point of view of the governmental system, this decree of the Provisional National Assembly (MPRS) reaffirmed what had been the policy of the Republic of Indonesia since the end of 1957 in the area of state territory, especially its territorial waters, and which has been enacted in law since 1960 (Ordinance No. 4, 1960).

CONCLUSION

As a conclusion to its implementation it should be suggested that, with the acceptance of the new treaty of the Law of the Sea Convention at the recent Third Law of the Sea Conference in New York, there has been achieved a certain firmness in the international recognition of the archipelagic state regime. This fact has strengthened the recognition of the archipelagic state regime that we have already obtained through agreements made with neighbouring states, the latest and most important of which is the treaty with Malaysia.

With such solid international recognition of this system of state boundaries according to the archipelagic state conception, the possibility of obstruction from overseas towards the conception of the archipelagic state, as the physical and juridical forum for the Nusantara Concept, can thus be avoided.

Thus, what should now get the attention of the Indonesian people is taking advantage of the benefits that they have already obtained from the determination of boundaries based on this archipelagic state conception which, as has been suggested, is of no little significance. The Republic of Indonesia's full sovereignty over approximately 3,000,000 sq. kilometres of seas and the underlying seafloor within its archipelagic state boundaries, has been increased by 800,000 sq. kilometres of continental shelf beyond the state boundaries of the archipelago and also exploitation rights to natural resources over 2,000,000 sq. kilometres based on the Exclusive Economic Zones.

In the implementation of the Nusantara Concept as a developmental concept, it is to be expected that all parties in all sectors will help in its realization. There is no denying that for the realization of the unity of a nation and people in accordance with the Nusantara Concept the development of a region, taking the form of an archipelagic state such as does Indonesia, the sea and air are the connecting and integrating factors for the life of the nation on land.

In formulating a new national law of the sea the results achieved up to now, the interdepartmental activities coordinated by Pankorwilnas (Chief Coordinator of National Territory) to support a national legislative programme, should be able to be made the foundation for and the guide to its completion during the period of Pelita IV (Fourth Five-year Plan), 1983-1988.

In hastening the implementation of the Nusantara Concept, we should be able to consider the necessity of continual supervision to ensure that national development and the construction of one country is truly carried out in accordance with the Nusantara Concept.

The General Election and Political Education

A. Sudiharto DJIWANDONO

Indonesia is still classified as a developing country. For one thing, this means that Indonesia is still at a stage of transforming itself into a modern and advanced society in all aspects of its existence. The task of achieving that modernity has been carried out via a series of systematic and consecutive development drives that began with the First Five-Year Development Plan (Repelita) in 1969 and which have continued and grown from one Repelita to the next.

The expansion of this development effort is not only to be seen in expanding development budgets from year to year or from one Repelita to the next, but also in more and more extensive development programmes which have shifted their focus of attention according to the planned development stage.

Something that should be made clear is that national development is not only directed towards increasing the people's welfare in the economic sense, but both their worldly and internal, material and spiritual welfare. It is not only directed towards one group of the people, but all people and the whole of Indonesian society. The official term used is that national development in the long-term aims at creating the complete Indonesian man and is aimed at the whole of Indonesian society.

This involves the understanding that development aims at increasing Indonesian's quality of life totally and completely. And since the life of the people has many aspects, the effort to improve this quality of life is naturally

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multifaceted. But on the other hand it is known that all this can only be achieved through economic development that makes the existence of the necessary infrastructures and means for future development possible.

Therefore economic development is given central priority, especially in the opening stages of the national development process.

In the meantime, we are also aware that one important and decisive precondition for development is to guarantee national stability, especially stability in the political life of the state. The experience of the fifties and up to the mid-sixties shows that without there being stability it is impossible that development can be carried out as it should be. The period was full of ideological and political conflicts between social groups which did not permit the creation of a political structure and system that benefitted the national development effort.

Systematic and planned development could only begin to be implemented in 1969 after the stabilisation since 1966 which began as a reaction to the PKI's unsuccessful attempt to seize state power on 30 September 1965.

Yet this did not mean that political development was complete. Accompanying the success of national development that is centred upon economic development, political development has to be continuously carried out to encourage the implementation of future development efforts.

In this framework the general election should be seen as a part of development in the political arena and is of the forms that national political education takes.

INDONESIA AS A DEMOCRATIC STATE

Indonesia is a democratic state. This is clearly stated in the 1945 Constitution Paragraph 1, Article 2 which reads: "Sovereignty is in the hand of the people and is fully implemented by the Peoples Consultative Assembly (MPR)."

This provision of the constitution indicates that in Indonesia's *system* of state the ultimate authority is in the hands of the people and that the *structure* of its system of state is created by the MPR. The MPR is thus the ultimate state authority. Its position as the ultimate state authority is reflected by the MPR's responsibilities according to the constitution, the most important of which are the determining of the constitution, electing the president and vice-president and determining the Broad Guidelines to State Policy (GBHN).

The manner in which democracy is carried out naturally differs from one state (or nation) to another. This difference arises because each state has its own historical background which over centuries, has formed the individuality, culture, identity, views and perceptions of a people towards life in all its aspects. Nonetheless, democracy as an ideal has a universal nature with its uniform essence being to recognize and implement the basic rights of mankind.

A state is thus democratic when the basic rights of mankind are recognized and put into practice as they should be, and when the state structure and government clearly places state sovereignty and authority in the hands of the people. A democratic system demands limited government which carries out the task of government according to the broad outlines of policy determined by the people and which is responsible to the people.

The Indonesian nation wants those democratic principles to be realized according to the Indonesian nation's principles which have grown and which are rooted in Indonesia's own popular culture as formulated in the fourth principle of the state philosophy: Pancasila ("5 principles").

For that reason, Indonesian democracy is also termed Pancasila Democracy. In a general sense, this can be interpreted as meaning that the principles of democracy in Indonesia are put into effect as formulated in the fourth principle of Pancasila and are based upon Pancasila in their totality. As it is known, Pancasila is a philosophical formulation. It is the philosophical basis for the state of the Indonesian Republic.

This clearly indicates that the Indonesian concept of democracy is fully adequate. It has democratic principles which are founded upon the belief in the One Supreme God, which hold in high esteem humanitarian values, which always give priority to a united and unified nation and which aim at the realisation of social justice for the whole people.

Yet democracy is a process. This process will only go smoothly and continue to approach a better and more complete stage when efforts to support and develop it correctly are continuously put into effect. Although, as it has been outlined above, it could be concluded that basically the Indonesian nation is instinctively a nation that lives with a Pancasila spirit which means that it implicitly possesses a democratic spirit and way of life -- such an instinct needs to be developed by various routes and methods which are consciously planned and consistently carried out.

A modern democratic existence also demands a certain level of astuteness, not only for the leadership but for the whole people, because the mechanisms

in democratic life will only function smoothly and naturally when everyone has sufficient awareness and understanding of their individual rights, obligations and responsibilities.

People also need "practice" and experience to deepen their awareness and understanding of living in society and in a state system so that they can participate positively within a functioning democratic system.

It is in this respect that the very important role of education, both informal and formal, is obvious.

Increasing the astuteness of the people can only be done through educational efforts and activities, and particularly formal education. It is understandable that nations like Indonesia, newly independent at the end of World War II, have since the first years of their independence focussed their attention upon educational development so as to give substance to the independence they achieved - whether peacefully or through armed revolution such as Indonesia.

Such development is generally aimed at transforming the colonial educational systems into national educational systems more relevant to the individual interests of each state. Every country certainly sets out to create citizens with satisfactory intellectual dexterity, with certain skills to carry out their respective functions well, and who at the same time take pride in being aware of their rights and responsibilities as good citizens.

The demands of the modern era upon the educational system are certainly increasing if compared to previous periods. In the past, education was generally aimed only at increasing the child's intellectual capacity with a mastery of knowledge and/or mastery of the sciences and/or certain vocational skills. Other aspects relating to the development of the individual's personality were generally regarded as the responsibility of other social institutions such as religious bodies or the family. In the meantime education, especially formal education, was to play an indirect role. It was expected that someone whose intellectual capacity increased would be able to improve his personality and mentality. This concept has particularly developed in Western countries.

But as social and religious institutions grew to have less hold on the individual, a side-effect of the modernization process, formal educational institutions should be able to fill the gap. Education is no longer concerned only with raising intellectual capacity but must at the same time be also able to develop the personality by transforming existing social norms and values.

This means that formal education is expected to create citizens with complete personalities, who are intellectually adept and skilled, while at the same time having the consciousness of good citizens: aware of their rights, obligations and responsibilities according to existing values in society and in the nation.

In its relationship with the politics of the state system this means that formal education also functions to carry out what is called "political education" in the sense that formal education, through its curriculum, also transforms existing norms and values of the nation in social life. This includes the political life of the state, even though most formal education that makes citizens aware of their political rights and obligations is not done openly but through a "hidden" curriculum as civics, social studies, social education and so on. And according to Willem Langeveld¹ the only (Western) state in which "political education" is generally accepted is the Federal Republic of Germany. The word "politics" is generally avoided because politics is always seen as a "dirty business" which must be kept far from children. Politics is also always connected with conflict whereas schools, as educational environments, require an atmosphere of harmony. Politics is also often equated with political parties which is of course a mistake.

However this may be, the "political education" of its citizenry is required by every state and is done by many states whether openly or in a concealed fashion, whether through formal or informal education or by using other routes and methods. The material for political education naturally differs from one state to the next because each state and people has its own background, history and culture which determines the pattern of the life of the nation and its political life.

POLITICAL EDUCATION IN INDONESIA

Indonesia, a democratic state, is still classified as a developing country. It has its own problems which are certainly not the same as, nor can they be equated with, those of advanced states. In several aspects they cannot even be compared to those of other developing states.

The concept of democracy as it has developed in Indonesia is no longer questioned because the Indonesian concept of democracy (or "Pancasila democracy") was nationally accepted at the time of Indonesia's proclamation

¹Willem Langeveld; "Political Education as a Principle, Problems, Examples and Ideas," *Korea and World Affairs*, Vol. 4/4, Winter 1980.

of independence in 1945. The concept has become steadily clearer, particularly since the birth of the New Order in 1966, and in keeping with national development that includes development in the field of politics greater efforts have been directed towards implementing this concept of democracy consistently and purely.

Political development to implement this Indonesian concept of democracy is basically very important and involves wide and thoroughgoing activities. It is important because future development will very much depend upon the success of efforts made now. These efforts not only involve measures to correct the deviations that occurred in the fifties and up until the mid-sixties, but must at the same time be able to ensure that future democracy in Indonesia will continue to develop consistently such that it has a Pancasila way of life and philosophy as its basis.

In the meantime Indonesia, as a developing state which went through a colonial period of 350 years, still faces various institutional weaknesses that have a bearing upon its democratic mechanism. These institutional weaknesses and mechanisms are a reflection of the still low level of popular awareness that is a general symptom of a developing society still in the process of moving towards a more modern and more advanced existence.

Political development in Indonesia thus involves activities generally aimed at the greater stabilization of Pancasila democracy. As suggested above, this stabilization involves wide and thoroughgoing activities because it includes developing political institutions, inter-institutional mechanisms, and-of no less importance-giving "education" to its citizenry as actors and participants in political life. Every citizen is expected to possess satisfactory political understanding and awareness, aware of his rights and obligations as a citizen of a democratic state with special characteristics according to its underlying philosophy and way of life.

In this case the role of education in political development is very obvious. Increasing the citizen's awareness of his rights and obligations will go ahead as his astuteness and intellectual capacity increases - which can only be achieved through education. Apart from increasing intelligence, it is also expected that educational activities will be able to create a deeper understanding of the basic state philosophy and way of life of the Indonesia people, their history, aims and aspirations. In this way there will also grow and develop a love for the homeland and its people, a willingness for the individual to serve and make sacrifices by carrying out his rights and obligations as best he can and with full responsibility.

The existence of the subject of “Pancasila Morality” (PMP) - previously called “civics” - in primary and secondary schools as well as the subject of “Pancasila ” or “State Ideology” for higher education indicates that formal education in Indonesia as in many other states includes also a political education aspect. Yet in Indonesia, as in many other states, the term “political education” is not used in formal educational circles.

However, the term political education is officially used by the highest state institution, the Peoples Consultative Assembly (MPR). In the fourth chapter of the 1978 Broad Guidelines to State Policy (GBHN), it is mentioned that: “Political education will be increased to raise awareness of the citizen’s rights and responsibilities so that he will actively participate in the state system and in development.”

The reason that the term “political education” is used explicitly has its own conceptual background.

Firstly, there is a consideration of an educative nature which is that the general view of politics as something dirty, polluting, full of conflict and the such like will be gradually removed and that there will grow in society a more realistic and healthy understanding of politics. One need not be afraid of and avoid politics because whether he is aware of it or not, whether he wants to or not, every citizen of a state is actually always involved in politics. The state system is basically political.

Secondly, there is emphasis on increasing the people’s awareness of their rights and responsibilities as citizens (in other words, increasing the peoples political awareness) that needs to be done consciously and in a planned way. In this case, this requires educational activities so as to be more effective and to better ensure that deviations such as those that occurred in the past are not repeated.

In fact, even without a conscious and planned effort, the process of making the citizen aware of his rights and obligations takes place automatically in society through the socialization process or political socialization. In the family environment and in social intercourse social interactions take place, and within such social interaction, transformations of the values and norms that underlie social life occur - including those for the state system. One also learns from empirical experience and every day obtains practice in living socially.

Especially in Indonesian society, in which the values of communality and kinship are still held in high esteem, the socialization of these values proceeds quite smoothly and effectively.

Yet the socialization process is not without its risks. Since this process takes place "freely" in social intercourse, it is quite possible for a deviation to occur or a wrong direction to be taken. Political and ideological elements contrary to or opposing the Pancasila ideology still have to be taken into account and prevented from developing in and poisoning society.

For this reason, political education is important and needs to be implemented. There needs to be conscious and well-planned activities carried out to increase the people's political awareness so that every citizen, as an actor and participant in the political life of the state, plays an active and conscious role possessing sufficient awareness of his rights and obligations. This awareness arises because of deep conviction in the correctness of the basic values underlying the life of the state in which he is involved.

Is political education free of risks? Of course political education, as education in general, also carries risks. An educational system may not achieve the results it first set out to achieve due to intrinsic errors or weaknesses. In general, education demands a number of complementary components for it to succeed and they include a relevant curriculum, physical infrastructure, method of presentation and, of no little importance, is the human element in the implementation of education - especially the educators. The role of these educators is especially decisive in relation to the formation of character and personality and in developing attitudes, perspectives and behaviour. Here concrete action and examples are necessary - which can only be provided by educators who themselves actually possess such personal qualities. Apart from that, educational success is also very much determined by the surrounding "educational atmosphere."

Political education must therefore be well-planned and carried out absolutely responsibly.

For the Indonesian people, political education is already their political choice. Therefore, political education must be carried out in various ways.

The first route is through formal education such as that earlier put forward, even though the term political education is not explicitly used in educational circles. In addition to political education through schools from the primary to higher educative levels, political education is also carried out through non-formal education, through social institutions and especially youth organizations. Youth organizations have quite a long tradition in Indonesia and played their part in the colonial period, the revolutionary period and in the development era. Love for the homeland and people, love for freedom and an anti-colonial attitude in all its forms were successfully

developed by youth organizations in particular. For political education today, their role is expected to remain great so that there needs to be created conditions that support the development of youth organizations.

Political education is also effected through the education of society and this relates to the very important role of the mass media - both printed and electronic.

It should now be added here that with political education such as that outlined above, Indonesia is not moving in the direction of a totalitarian state. This is impossible precisely because political education is carried out within the framework of stabilizing Pancasila democracy. What is intended by political education is to achieve a democratic spirit or awareness based on the fundamental values of the state philosophy of Pancasila.

This needs to be done since the Indonesian society is still at the stage of developing towards a more modern and advanced existence. Such a development process should be directed according to the fundamentals, ideals and objectives of the Indonesian people including through what is known as political education.

GENERAL ELECTIONS AND THEIR SIGNIFICANCE FOR POLITICAL EDUCATION

On May, 4, 1982 Indonesia conducted a general election in which the Indonesia people, according to the regulations of law, had the right to vote and to elect the representatives that will occupy seats in the representative and consultative institutions of central and regional levels. This was the fourth general election in the history of the Republic of Indonesia and the third held under the government of the New Order.

The general election is an important democratic institution. It is a realization of popular participation in the state system. Therefore the general election is frequently made the measure of the level of democracy of a state that regards itself as a democratic state. Every observer always wants to know whether an election has been in reality freely and secretly conducted, without pressure from any quarter whatsoever and organized well and clearly so that the outcome truly reflects the living aspirations of society. How many electors use their right to vote can also be a measure of the level of popular consciousness of the rights and obligations of citizens or of the level of political awareness of the citizenry.

According to the two above measures it has been proven that in Indonesia the general election truly functions as an important institution in democratic life and is definitely not a mere formality or ceremony. The general election in Indonesia is carried out based on the principle that it be direct, general, free and secret which guarantees that every voter uses his right according to his inner conscience and choice.

Seen from the total of voters using their right to vote it appears that over 90% of voters voted in the election. Data that can be collected from the 1971 general election until the 1982 election presents the following situation:

Year	Total Population	Registered Voters	Valid Votes	Percent Using Their Voting Rights*
1971	114.190.163	58.179.245	54.696.887	94.02*
1977	129.977.596	70.662.155	63.998.344	90.57
1982	147.490.298	82.082.934	75.014.980	91.33

*Excluding Irian Jaya.

In the context of political education, the general election can be seen as an effective means to raise the political awareness of the people. For citizens using their voting rights, the general election provides political experience of how they can participate as citizens in a state system. For the younger generation who do not yet have the right to vote, the general election demonstrates practically how the mechanism of democracy functions, in which one day they will directly be involved.

The general election also has a significant educational function for the socio-political organizations that participate. From their experience as participants there is much to learn, especially on the strategy and tactics of winning votes under the existing system and on how to run a good, efficient and effective campaign. Socio-political organizations should also be aware that through a good campaign they will have educated people which, in turn, will have a positive influence upon their political aims.

From the social perspective it is clear that social participation in elections has been quite pleasing. As is evident in the above figures, the number of voters using their voting rights in the 1982 election was 91.33 percent of registered voters. Of course it is impossible to know for certain whether these voters actually exercised their right to vote according to an awareness of their rights and responsibilities as citizens, or whether other factors influenced

them. It is quite possible that there were those who regarded voting more as an obligation than a right. Or it could quite possibly be that a voter made his decision not according to his awareness or beliefs, but only to show that he is a good citizen.

Such possibilities can occur keeping in mind that Indonesian society is still developing, a stage at which political awareness and astuteness still needs to be increased. Once again, political education plays an important role here.

We can thus see that there is an interrelationship between the general election and political education. On the one hand the election can function as a means for political education, while political education gives more meaning to the election. Through effective political education, the general election will be more functional in democratic life and in the state system in general.

CONCLUDING REMARKS

The 1982 general election has passed. From within the conceptual framework as explained in this article, it is hoped that socio-political organizations participating in the election and all the Indonesian people - but especially the younger generation - were able to learn from their experience.

In this context, something worthy of note involves how the campaigning was done before the votes were actually cast. For the socio-political organizations participating in the election, the campaign was an opportunity to directly influence public opinion in such a way so as to win potential voters for their party or organization at the polling booth. Because each organization participating in an election of course attempts to establish the greatest influence and draw as much sympathy as possible, the general election campaign naturally becomes an arena of competition.

From another perspective, the campaign for a general election can also be regarded as the political education of the people carried out by socio-political organizations. The election campaigning should be carried out in the best possible manner so as to effect an increase in people's political awareness, and to increase their understanding of the significance and importance of the general election for democracy and for statehood in general. And of no less importance is that it provides an example and realization of how to compete fairly without damaging the unity of a nation, a value which has to be held in high esteem by every Indonesian citizen.

During the 1982 election, it was apparent that the weak point was how the campaign was carried out, something which should be paid attention to and

improved in future elections. The *methods* used in campaigning and the *themes* chosen were perhaps the crucial points, so that campaigns for general elections continue to have educative value for political education that supports the political development effort.

While competition is a characteristic of general election campaigns, each contestant must make an effort to avoid excesses. Although limited, excesses did occur in the 1982 election in the form of physical clashes in Jakarta and several other cities.

Campaign methods which rely upon maximum mass mobilization may need to be reexamined, since such methods always involve great risks. A small incident can rapidly develop into a massive disturbance hard to contain. When this occurs it will arouse fear in society, something which damages the political education process.

Not only campaign *methods* need reexamining, but campaign *themes* are also an important aspect requiring attention. It is unwise and irresponsible for sensitive social issues to be used as campaign themes -- such as those involving religious, ethnic and racial themes. These issues are still quite sensitive for a social sector and they can easily fire mass emotion. A further result is that interreligious or inter-ethnic *conflicts*, and *racialistic practices* may occur which will all harm national unity. Indonesian society is still developing and modernizing. The process must be promoted by development efforts and filled with positive factors and experiences.

The general election is one factor which raises the social awareness of a people's political *existence* and of their statehood. It must therefore be seen as a means of political education to be implemented *as well* and as responsibly as possible. The political campaign for general elections needs to be improved so that it truly has educational value for society. This is the special responsibility of socio-political organizations participating in general elections.

Industrial Development during Pelita III

A.R. SOEHOED

INTRODUCTION

In keeping with the General Plan of Long-term Development, the special function of industry in the First 5-Year Development (Pelita I) was to provide support for agricultural development. In the Second Five-Year Development Plan (Pelita II) the role of industry grew with the ability of reprocessing raw materials into finished products. This role played by industry in Pelita II, must be enlarged once again during Pelita III, whereas in Pelita IV our industry must be able to begin production of its own equipment and machinery needs, a capacity which must be developed further in the following Pelita.

In Pelita I, therefore, industries which were developed, were particularly those which could rapidly and directly satisfy agricultural requirements such as fertilizers, pesticides and agriculture-supporting machinery. In addition, policy was directed towards social needs, especially in the areas of clothing and of building materials, of a quality and price within reach of the bulk of society.

During Pelita II the reprocessing of raw materials was begun in particular agricultural materials (rubber, palm oil, tapioca and wood) and several minerals such as calcium, clay and sand for cement, glass, as well as other building materials.

By Pelita III the ability to reprocess natural resources had again increased and, in keeping with the basis of continuous development, during Pelita III there must also be prepared the foundations for an engineering, or machinery industry. This will be more fully implemented in Pelita IV.

This means that to establish the capacity to reprocess raw materials into processed or semi-processed goods, the raw material and supplementary industries needed by the engineering industry need to be established concurrently.

Apart from this, there are various other arrangements which are also to be effected so that the engineering industry can function effectively and economically.

Looking at the results of Pelitas I and II, and the various targets which can be reached during Pelita III, Pelita III can properly be called a new stage in the industrialization process. Subsequently, the goal of industry to become the backbone of the economy - can thus be achieved. In fact, it is not impossible that an acceleration of the rate of growth can be produced.

To reach these targets several programmes have therefore begun to be put into effect: amongst others, the determination of priorities and the development of basic industries (especially raw materials), the organization of the engineering industry including its physical requirements, the determination of industrial standards and the growth of non-oil industrial exports which will support industrial development.

At the same time development also demands, as much as possible, the equal distribution of wealth and the creation of jobs which necessitates special programmes, particularly for small industry and for creating links between small, medium and large industries.

The establishment of basic industries, although they appear to be capital-intensive, if examined as to their total effect upon job-creation and their dynamic effect, will make the equal distribution of wealth - whether in the fields of business, the ability to obtain work, or in regional development - easier to achieve.

Yet all these efforts cannot be fully realised as planned where they are not supported by various facilities such as the promotion of good industrial development, the correct capital investment policy, the preparation of funding, and of adequate banking services, the provision of sufficient energy at a fair price and the development of transport, trade and of education for management and skills.

In a more detailed analysis there will be discussed what has been and will be effected as well as the facilities needed for the implementation of each programme.

BASIC INDUSTRIES

During Pelita III, the manufacturing industry, which had rapidly grown in common with both basic and small industry, in 1980-1981 grew by as much as 21 percent.

The foundation which has been established, has to now be strengthened and deepened by the development of raw material, or of what are generally termed as "basic" industries.

Raw material industries are basic industries which must generally have a large capacity to be economical. So new basic industries can be built where the market for their goods is assured - either domestically or through exports.

In the periods of Pelita I and II the government had already begun to develop basic industries, especially those for goods which can easily be made in Indonesia and those for which the domestic market was sufficiently large - such as fertilizers and cement.

As the end of Pelita II and the beginning of Pelita III was approaching the development of basic industries began to be handled more consistently with production increases and the expansion of various sorts of fertilizers such as urea, Triple Superphosphate (TSP) and Sulphuric acid Ammonia (ZA), followed by cement, aluminium, steel and others. At the same time private enterprise began to move in the direction of upstream industries.

Plans now being developed, and some of which have already been put into effect by the state or by private enterprise, include an increase in cement production from what is now about 7.5 million tons/year to 17.5 million tons/year by 1984-1985; during the same period the production of urea fertilizer will increase from about 2.2 million tons/year to 4.5 million tons/year, of TSP to 1.0 million tons/year and of ZA to 400,000 tons/year to where the total fertilizer output will exceed 5.5 million tons/year which is an increase of more than 100 percent of current production.

The production of the raw material for aluminium will begin in 1982 at first at 75,000 tons/year and will reach its maximum capacity of 225,000 tons/year in 1984.

Likewise the production of steel compounds which is now at about 1 million tons/year will reach 2 million tons/year at the end of Pelita III with a production pattern based on steel ingots and sheet metal. Apart from this there is also the output of other smaller factories which also make downstream pro-

ducts from iron ore such as steel concrete, steel reinforcements, steel wire, etc. with an overall capacity of about 1 million tons/year. In the processing of metals, the part played by industry can be seen to be increasingly prominent and will continue to be increased.

The production of wood and pulp will continue to be increased from a level of 340,000 tons/year at present to more than 750,000 tons/year at the end of Pelita III. This expansion will involve both writing and printing paper, as well as new products such as newspaper and paper for crafts.

At the same time two petrochemical centres are currently in preparation, one for plastic materials and one for synthetic fibres, to support existing downstream industries as well as those being developed. Textile requirements can now be fully satisfied from domestic production, and even exported, and private interests have already been attracted to upstream industries.

The wood-processing industry will be strengthened, for instance, by the plywood industry which within the next 2 years will realise a capacity of 4 million tons. If the use of wood can be increased, for example by the production of wooden ships, the wood-reprocessing industry will also grow.

The rubber industry which is centred upon tyres for transportation is already able to fulfill a large part of domestic needs; production is now at 8 million tyres/year and will later grow to 13 million/year. Apart therefrom a rubber industry for products needed by industry has also developed.

Such is the picture of basic industry and its products which is already being created or is in preparation and is expected to be completed by the end of Pelita III. Yet whether this production can be optimally realised will depend very much on the support derived from other economic facilities. This is especially so since the structure of the metal and metal-fabrication industries is basically still weak and sensitive. Yet in Pelita IV its own machinery must be produced.

Basic industries possess special features which means that provision for them will always involve various problems.

Industries which are dependent upon natural resources, of which there is a plentiful supply in Indonesia, are generally located as close as is possible to where these resources, as well as an energy source, occur. Such locations are necessary in the construction phase, and in the period of operation for which various industrial infrastructures will be needed such as an electric power centre, water, roads, harbours and housing.

In the situation where there are various resources located close together, or where in one location there can be produced various types of goods, or where several additional materials have to be specially made, it is more sensible to place the basic industrial units close together so that the infrastructure -required by each individual industry- can be developed, and its cost calculated in combination with others.

Thus, very often basic industries exist in groups, organised into various factories or units, that are called industrial 'clusters' or 'zones,' because they consist of centres of development. These zones also form centres of activity and of conspicuous growth.

Several such centres in one region will generate a growth area which will, in turn, give substance to the Indonesian archipelagic concept (Nusantara), realize an equalisation of development activity and enhance national resilience.

The basis for such a growth-area is that there are many sources of energy and natural materials - or, more generally, potential sources - within a certain district which will allow that district to be quickly developed and optimally exploited. This will, at the same time, reduce the structural weaknesses of the industrial sector.

In the planning of industry, especially basic industries, there have been identified 5 special development areas: firstly, Aceh and Northeast Sumatra (with centres in Lho Seumawe, Kuala Tanjung and Dumai); secondly, South Sumatra including Banten (which covers the areas of Palembang, Tanjung Enam, Baturaja, Cilegon and the islands of Bangka and Belitung); thirdly, Java (with centres in Tangerang, Bekasi, Cibinong, Cilacap, Gresik and Probolinggo, etc.); fourthly, South and Southeast Sulawesi and lastly, East Kalimantan (with the centres of Balikpapan, Samarinda, Bontang and Se-sayap). Apart from these there are several isolated zones in special development areas such as Lo Nga in Aceh and Indarung in West Sumatra.

The basis for the creation of these development districts is in large part due to a richness of natural resources and of energy sources. An exception is Java whose special growth potential is its large and sufficiently skilled population as well as an infrastructure of transportation, energy and complete education - factors which are very much needed, in particular, by the engineering industry, a basic industrial sector which will be treated independently below.

As has been emphasized above, the development of these zones and districts has been due to the concentration of basic industries in clusters so as to depress the infrastructural costs and to create an equal distribution of development activities in the regions.

Yet, when looking at this issue, the question may be posed: would not the development of these basic industries be hastened or optimally facilitated if coordinated on a national basis?

Experience tells us that the world of private business is not so drawn to invest in basic industries if, apart from the cost of the direct investment which is already great enough, it must also carry the burden of all - or a large part of - the infrastructure costs.

In many countries, the development costs of such infrastructure is indeed carried by the state budget or by concessionaries funded from international sources which draw upon private capital in the development of basic industries (for example: the Amazon Hydroelectric Power in Brazil for an aluminium smelter).

This policy should be reconsidered today so that the natural wealth of Indonesia and her existing sources of energy can be optimally exploited at the same time as realising a distribution of wealth and enhancing national resilience.

The Asahan Project is one example where the infrastructural costs were borne by both Japanese and Indonesian governments. This combination of capital resources (in a public-private finance package) is probably the chief reason for the smoothness of the development of the Asahan Project -- which will also bring about benefits for regional development.

It is felt that the preparation of even the main infrastructural facilities - such as, a harbour, a main road, and an electric power centre - will act as an incentive to the investor in basic industries far greater than various tax incentives.

If a policy such as this can be implemented, and its funding allocated, the policy towards, and organization of, such large projects which are cross sectoral needs to be looked at once again. Precisely because of the existence of such principal development regions, the development of infrastructure and its budgeting can be planned more effectively.

Because of the lack of private interest in many projects, it is the government which must take the initiative in coordinating national development.

At the beginning of 1980 the Department of Industry organized a list of key projects in the industrial sector, which consisted of about 30 basic chemical and basic metal projects.

This list was passed on to the government to reaffirm that these were projects which would be implemented, at the latest before the end of Pelita III, so that the General Programme of Long-term Development would be completed and the structure of production would obtain the depth and basis it requires.

To accelerate the development of basic industries made possible by an abundance of metal and energy resources, with these key projects the government has taken the initiative and called upon public corporations to implement them where the initiative and participation of private business cannot be expected.

The establishment of resource-based and energy-intensive industries, which are fundamentally efficient, provided that it will not be burdened with infrastructural costs and its implementation will be rapid.

In the one and a half years since this list was passed on, 10 of the 30 key projects have already been put into effect.

Looking at the growth of today's world recession and its impact upon the oil market, for instance, there are perhaps those who wonder whether such rapid growth can be maintained. It should be clear that this growth has to be maintained whether through the strength of capital itself or, if necessary, with new policies for the investment of private capital.

The implementation of these projects is an absolute necessity and, where it is necessary, they must be continued by using existing foreign reserves. The development of these new potentials is a precondition for managing a rather difficult period so that Pelita IV can be entered into with the reality and prospects of prosperity far stronger and more stable.

THE MACHINERY INDUSTRY

The machinery industry, or what is more correctly called the engineering industry, is an industrial sector which is rather underdeveloped. This industrial sector generally begins from agriculture-supporting repair-workshops or from the development of mining. In Indonesia there are several industrial engineering centres, namely: the Surabaya-Probolinggo area, which supports the sugar industry, in Tegal is a centre for aiding rice cultivation, and in Medan one for supporting plantations. Smaller centres are found in Yogya, Magelang, Bandung and Sukabumi.

The important workshops which are in the areas of concentration mentioned above, are in large part former Dutch-owned factories taken over by the

Indonesian government (Barata, Boma Bisma, Indra), by national private business (Gruno - Surabaya and Tegal), those which became Government-foreign capital partnerships (Atmindo - Medan), and many others apart from these which constitute the activity of small-scale industry. In recent years there have also grown several engineering firms with a special focus upon the oil industry.

Apart from these are several small workshops which should also be mentioned: namely, those owned by Pertamina in oil-refining areas such as Balikpapan and Palembang, maintenance workshops owned by fertilizer and cement factories, and workshops owned by the State Rail Authority (PJKA), the Army (ABRI) and the harbours of Jakarta, Surabaya and Ujungpandang.

For a more detailed discussion, general workshops which play the role of supporting various economic sectors, are to be distinguished from specialised workshops which constitute one section of a government department, a transportation or a production enterprise. In the early stages, as we approach Pelita IV, it is these general workshops which will constitute the nucleus for the growth of an engineering industry.

This does not mean that other workshops will not be given attention. Besides its role in laying the basis for an engineering industry, there is the example of the Kujang Fertiliser Factory workshop which will be especially developed as a support for the fertiliser industry, i.e. the workshop in the Indarung fertiliser factory specially for the cement industry, apart from which several other instances are also developing various particular industries (ABRI, PJKA, etc.).

Returning to the existing general workshops, there are, at the moment, various products which have already begun to be made on a regular basis. The Atmindo factory in Medan, for instance, has made complete installations for the extraction and refining of palmoil, for the rubber industry the necessary steam boilers, light ploughs and other plantation equipment.

The Barata and Boma-Bisma-Indra complexes have for some time been assembling diesel engines and continuously producing road-rollers, vibrating-rollers, stone crushers, water turbines as well as various instruments and parts for the sugar, irrigation, rubber and other industries. The Tegal and Magelang complexes, which have small-industry characteristics, are already capable of making various types of agricultural and construction equipment.

Apart from these, there are already in operation all sorts of tractor, generator, transformer, petrol engine, diesel engine, and transport equipment assemblers in which the local components already exceed 40 percent on

average. The parts for an asbestos-cement factory, for example, that can be made in Indonesia already exceed 60 percent; likewise the parts for a plastic factory, a galvanized sheet metal factory, etc. In the meantime there has also developed an industry for producing tools and machinery - such as universal lather in Cilegon and the production for small of tools in Surabaya.

From the examples above it should be clear that the potential for building a machinery industry exists and only needs directing, wise policies and re-inforcement - which includes investment. The workshops under the authority of the state will apparently - in the early stages - form the centres of the engineering industry. In view of the "loading" that now exists, it may be said that, with the existing equipment, the workshops are adequately utilized.

But when this question is examined more closely it becomes clear that the capacity of those centres is, in reality, too limited. Generally, the equipment of these workshops is already extremely old and no longer of high precision, which causes low productivity. Almost all these engineering efforts have a weak capital structure and a lack of working capital so that they are unable to create new investment. Very often these companies must leap into wholesale construction contracts, simply to maintain their cash-flow, sometimes succeeding but sometimes not.

Therefore, the first step that has to be taken in the Third Pelita, is the rejuvenation of these units and the creation of a stronger capital base. Currently the yearly capacity of the general workshops owned by the Government is in the region of 35,000-40,000 tons, whereas if combined with other private units the current national capacity is about 100,000 tons/year.

In recent years engineering products entering Indonesia have reached 750,000 tons/year.

If 60 percent of these products could be manufactured in Indonesia, and the remainder simply imported or assembled, then it is clear how great the opportunity is to expand the engineering industry. In fact, the need is already urgent.

If the current capacity of the engineering industry is raised to 400,000 tons/year, this will create the possibility of realising at least US\$ 240,000 value-added - which in this sector will create enormous job opportunities.

To attain such a capacity there will be added, in the engineering industry, an investment of at least US\$ 120 million in the opening stages. It may be asked: how to guarantee the utilization of such an investment?

The following example may serve as an illustration. Indonesia will soon have about 100 sugar factories. If these factories become redundant after 20 years, then every year there must be created new machinery with the equivalent of five factories. If it is programmed that three of those five units are made in Indonesia, this will mean a "loading" of as much as US\$ 150 million in money and of about 100,000-200,000 tons/year in heavy goods; this is only for the sugar industry.

However, one precondition for this is the organization of at least US\$ 100-150 million in the coming three years for investment and working capital in the development of the engineering industry. The remainder can be made up from the turn-over of each individual unit.

In the meantime, through various other programmes, the prerequisites which have to be met to construct an engineering industry have already begun and in several aspects are already in operation. Amongst these programmes are: planning and administration, standardisation and rationalisation, the provision of soft-ware infrastructures, maintenance workshops and a component industry within small-scale industries.

Below will be discussed the programmes for such a preparation which have been, or are being implemented.

ARRANGEMENTS FOR A MACHINERY INDUSTRY

For some time there have been carried out some intensive studies on the potentials of existing industrial engineering units which is useful to determine the direction of development of each existing unit. In broad outlines, the Barata unit will be directed towards factory equipment such as heat exchangers and then foundry-work, construction equipment and road-building equipment. In this foundry-work is included castings for railway buggies and motor transport components. The Boma-Bisma-Indra complex will be directed towards agro-processing, especially sugar, followed by diesel combustion engines and boilers. This will be partly in the form of national enterprise and partly in the joint venture structure.

At the same time several joint ventures are being organised for the construction of earth-moving heavy equipment for which a location in the area of Cilegon (West Java) is now being prepared.

Such plans will require investment funding via the participation of the state. One problem which is faced in the planning and organization of the

engineering industry is that the handling of these engineering problems is still fragmented since it is divided between several government bodies. The result of this fragmentation is that it is extremely difficult to organize coordination between different bodies. The lack of synchronisation causes, for one, delays which lead to losses because of idle investment as well as a reduction in the earning capacities of developing sectors. An example is Krakatau Steel Ltd. for which the responsibility of a harbour, the supply of water and electricity - planned for overall industrial development in the Cilegon area - has been totally cast upon Krakatau Steel as the steel-making centre apart from the interest burden of the projects themselves.

The corporate restructuring plan to share this responsibility involves also the division of duties and of funding authority but has, thus far, not been conceptualised and concluded. Another problem for Krakatau Steel has been the division of the task of supervision among several departments.

A further example is the delay in the implementation of the aluminum project of Asahan which means a loss of revenue of over US\$ 100 million. This sort of problem is still very much experienced in various other sectors.

Therefore, for effective development of the machinery industry, what is needed is the creation of a sole institutional body.

Another programme for the organization of the engineering industry is the rationalisation of national industrial standards. This programme had actually been launched during past Pelitas, but only in Pelita III has it been systematically advanced within the Industrial Development and Research Body in the Department of Industry. There have now been determined over 500 Indonesian Industrial Standards (SII) and one section has already become involved in the production of certificates.

The fixing of standards is carried out through periodic meetings attended by consumer, producer, scholars as well as government representatives which are then ratified by the Minister of Industry. In the process cooperation between departments has developed well. It is hoped that, before the end of Pelita III, there will have been concluded 1,000 SII, including special SII for both engineering and small industry products.

Closely connected with the question of industrial standards is the question of rationalisation. In the attempt to stimulate investment, there have been, in the past, too many approvals given out without attention being given to establishing a consistent pattern, resulting in an extremely large number of product types. Based on such a pattern it is difficult to organize a domestic manufacturing programme.

In Pelita III, therefore, there has begun a programme of industrial rationalisation which takes differing forms for various sectors.

In the motor vehicle sector, rationalisation was begun in 1979 by isolating the less marketable products - or those which departed too far from conventional standards - resulting in a 50 percent reduction in the number of brands and models to 30 and 70 respectively. The second stage in this rationalisation was the directing of model - alterations towards a predetermined pattern, while simultaneously and gradually reducing further the existing models. The third stage, which is currently in process, is to encourage the existing models towards a certain pattern of machine standards.

Through this process there has been created sufficiently large "captive markets" for the important spare parts which has helped to lay the basis for the domestic production of engines. Beginning with the assembly of finished goods, imports of blank castings are later machined in Indonesia into components and ultimately the castings are machined from domestic products; at that time Indonesia's foundries must be fully developed. This process will require a time-scale of 6-8 years for the complete manufacture of domestic engines.

In this framework, several petrol and diesel-machine assembly works are being constructed. Similar deletion programmes are now being carried out in the motorbike, electric appliance and electronic industries.

For several other sectors the production pattern has been stabilised in the sense that, while new enterprise are not being allowed, existing enterprises are being expanded correspondingly, toward more stable economies of scale (vehicle tyres, battery industries, etc.) or in the direction of more efficient technologies (e.g. sheet steel, glass pane industries).

One condition for the success of these programmes is that they are supported by government agencies active in the organisation of goods - whether military or civil - and that there be effective coordination from the team entrusted with this task. What is meant by "effective" is not simply preconditions for domestic production but the specific determination of those parts which can be produced within the country economically and in compliance with the programme of industrial development.

What this means is that the lowest bid for tender should not always be accepted and tenders should at times be restricted to Indonesians - even where it has to be negotiated with a potential Indonesian party. Rivals who are only oriented towards the price of engineering goods will at times mislead or even

hamper the development of national potentials. The total proportion of the price of raw materials in the price of processed engineering goods can fluctuate between US\$ 400 and US\$ 2,400 per ton. Thus, it is very easy for large and powerful foreign companies to outcompete a new, domestic company. Only the lowest price for a domestic engineering industry is thus inappropriate in the early stages and can only be applied after the industry has been operating for some time. The difference of price in the opening stages is properly regarded as an intangible investment that, based upon the experiences of many countries, always has to be made.

In other words, various purchases must be quite firmly programmed to be produced domestically based upon the principle of fair negotiation and not upon the principle of free competition alone - if the engineering industry is to develop rapidly. The value-added and the employment generated would certainly balance such an explicitly preferential policy. Besides this policy attention should also be paid to "equipment packages" offered in tenders, which should include products made in Indonesia and which conform to Indonesian standards, where they are in operation. In this last effort Indonesian engineering services can provide services. This is one of the services that can be offered by Rekayasa Ltd.

The experience of many developing countries tells us that, with the ability to specify the equipment that will be bought in components, the total investment cost will be reduced. With further research it can be determined which parts can and must be made in Indonesia. These engineering services should step-by-step have their participation and their functions increased in government purchases which include a local content aspect.

The question of small-component industry and of the standardisation of small-scale industry products will be discussed separately in a review of the development of small-scale industry.

THE DEVELOPMENT OF SMALL-SCALE INDUSTRY

Since Pelita II there has been operating a national programme for small-scale industry Development, Leadership and Information (BIPIK). The importance of small-scale industry has already long been recognized not only as an effort in the distribution of development, but also as a social structure that can produce effectively and with little investment. It also constitutes an industrial element capable of absorbing much labor.

In the early stages then, the organization of small-scale industries with their own social-economic role is limited only by their information and guidance.

This information and guidance is given by field instructors (TPL), service centres and feederpoints.

Yet for this programme to be truly effective experience tells us that systematisation and directing of the use of technology is needed. Studies begun in Pelita III have produced a classification of small industries according to their product markets, into the following four groups:

- a. Small-scale industries that produce components for medium and large industry;
- b. Small-scale industries that produce processed goods for the general market;
- c. Small-scale or more correctly, handicraft-industries that make artifacts, generally for tourism;
- d. Small-scale or, more properly, village-industries that provide services or goods limited to the rural areas.

Based on these classifications, there has been prepared a construction and information system based upon construction centres for districts within a fixed radius. These centres are called Small-scale Industry Circles (LIK). LIK is in principle composed of three elements:

- a. Service centre - for information and guidance including marketing and raw material assistance;
- b. Common service facilities - complete equipment that can be shared by a district to finish its products;
- c. Estate element - work-facilities for a limited number of small industry businessmen.

These LIK, for the world of small-scale industry, play the same role as does the Puskesmas (Community Health Centre) for the health of the society.

A number of LIK in Java and Sumatra are in preparation amongst which some are in, or are approaching, operation. Sometimes several of these LIK do not require the first and second elements described above, so they only organized according to the work facilities. This idea has been put into effect in Pulogadung (Jakarta) and Rungkut. In Surabaya, the SUIK (Small Industry Facility) has been formed to facilitate the working relationship between large and small-scale industry (sub-contracting). However, for several types of small and handicraft industries sometimes the working facilities can not be separated from the housing. Therefore, there has arisen another concept, Small Industry Residences (PIK), according to which the work-place is completed with housing facilities attached.

Even though the attitude of society towards these ideas is quite positive, their implementation is very much hampered by administrative procedures and the difficulty of obtaining land in the regions caused by a lack of funds. Thus, very often, the development of these facilities is reliant upon private support in the form of "patrons," bank credit, private development etc.

While the LIK, PIK and SUIK systems have been able to raise the efficiency and effectiveness of the information programmes, they still evidently need special guidance as to their produce. Because of the relationship between large and small industries, (in which the large industries function as patrons of the smaller ones) the creation of basic materials (textiles, thread, leather, metals etc.) and their marketing has been much assisted. However, market penetration is still very limited because of design problems which means that products cannot quickly be adjusted to the market, because of production and finishing processes that are incomplete as well as standards which are non-existent or unstable.

Because of those weaknesses the reservation programme, to create reserves in particular sectors of small-scale industry, has not been able to show its effectiveness. In this reservation programme it has been determined, for example, that only enterprises with equipment worth less than Rp. 70 million or with investment valued at no more than Rp. 350 million/worker, can be classified as "small-scale industry."

Practice makes it clear that only a very small number of small industries have investment in equipment approaching Rp. 70 million, but that the bulk is far below this limit. Research tells us that equipment which is so limited will not be able to produce goods or components on a regular basis, in fixed quantities, or of a consistent quality.

It should be clear that to link small with large and medium industry, as well as to the wider market, certain sectors of small industry must be modernized and equipped with a greater amount of suitable technology while their businessmen must be trained to work according to a fixed system, quality and standard.

It is upgrading such as this which can bring into existence a modern, small-scale industry equivalent to the small-scale industry of Japan and India which is able to produce a meaningful part of the national output.

The programme which is now being carried out within the framework of modernisation includes an arrangement in which the Field Research Body (TPL) is able to function as a business promotor and as councillor for small-scale industry. Apart from this, several sectors of this industry will be directed

either towards particular products which can be sub-contracted (mechanical and electric components) or towards captive markets (Transmigration, Defence and Security, National Housing Authority).

Tool-rooms for making small-scale industrial equipment, and training centres now being developed cooperatively with India, are parts of such a programme. At the same time training programmes for industrial field councillors are currently being arranged in cooperation with the Japanese government.

With this development plan, therefore, it is thought that the demand for the equal distribution of development can be fulfilled at the same time as maintaining economic growth directed towards building national resilience, as a result of the integration of small, medium-scale, and basic industries.

In calling for this effort, what is needed increasingly is support and integration, not only within the industrial sector, but with external sectors such as district governments, labour and positively from sufficient fund reserves. The development of small-scale industries should be given first priority.

THE ROLE OF STATE-OWNED ENTERPRISES

In analysing the importance of basic industrial development today, and noting that this development must be accelerated by mobilizing all existing potentialities, two alternatives have been put forward.

The first is that of using the joint-venture structure with private capital, especially multinational corporations by providing various incentives, in particular, completing the infrastructures (roads, harbours and centres of electric power).

The second alternative is that of working only through national companies, with a joint-venture between the Government and national enterprises, although all the funding for the shares may come from the Government. In this alternative the burden of the infrastructure must be carried by the Government either directly or via the company.

If these two alternatives are compared, there is the similarity, that in both there must be Government capital involved, apart from funding for the infrastructure.

It is evident that within private national enterprises there are few companies currently able to become a partner of sufficient weight when facing multinational companies - apart from the public corporation. The size, staffing and "stature" of the public corporation, apart from the financial support of the Government, clearly makes it the single entity that can face up to the multinational corporation today in the development of basic industries.

On the other hand, the two alternatives indicated above also contain a principal difference. In the first alternative the structure of the enterprise is that of foreign investment (PMA) which generally takes the form of a package organized by the foreign partner, whereas in the second the possibility to "unwrap" the investment package is totally with the Indonesian side. When backed up by engineering services and capable consultancy this process of unwrapping will carry with it various benefits.

The unwrapping of an investment package makes it possible to examine more closely the value of the components in an investment, namely the source and conditions of the capital, of the technological set-up and of the engineering structure of the plant equipment. If there is engineering capability of sufficient skill, this unwrapping can therefore allow a selection of the best offer - not only the cheapest, but the best from the aspects of production costs, the cost and simplicity of maintenance, etc.

Furthermore, the unwrapping process can lead towards partial tenders for each part of the plant equipment and eventually, to local manufacturing of certain parts. With the aim of providing this very engineering support there has, therefore, been established a new public corporation solely for engineering and consultation services: PT Rekayasa.

Experience has also told us that in the unwrapping process within national enterprises, especially public corporations, the transfer of technology is more rapid. In these last ten years a great number of skilled personnel, especially within the public corporations, have thus been produced. It is these skilled staff which will be made the nucleus of the Rekayasa personnel.

Returning to the two alternatives mentioned earlier and considering that basic industries - especially the raw material industry - always contain vitally strategic features, then the path of development that promotes national enterprise by calling upon the public corporation is probably the only path at the moment to accelerate development and to strengthen the structure of national industrial production.

To go back to the question of infrastructure - the absolute precondition for development - if this point of view is acceptable, a large part of the planning

and estimated funding for infrastructure (including education) should properly be focused upon the growth centres in which the industrial zones form the nuclei.

In the one-and-a-half years since the list of key projects was put forward, the implementation of over ten of the basic industrial projects with a total investment in the range of US\$ 2 billion has begun - all by public corporations.

In the implementation of this concept the effort is always made for the public cooperation, and the world of private business to develop side-by-side. It is at no time intended that the public corporations pressure the private. Basically, the state-owned corporation is based upon the following principles:

1. To develop vital sectors in which the capacity of private interests is limited.
2. Participate in important commodity ventures to stabilise prices.
3. To pioneer new sectors of enterprise in which the risks for private enterprise are still too great.

To raise the capacity of each public corporation's management and to broaden its leadership there are continually conducted refresher and upgrading courses for management and potential cadres. Apart from this all, large corporations as well as several large private companies, have created apprentice schools to help in the preparation of skilled staff.

THE ENERGY PROBLEM

Industry in general, and basic industries in particular, find it hard to develop without the guarantee of reliable energy sources. Up to now a large part of industry has been dependent upon oil as a source of energy. Whether for industry or for the state, this constitutes a burden which is growing heavier every day.

For industrial development what forms the chief priority is therefore the quick construction of electric power centres in the growth centres. The industrial demand for electricity is generally centralized, and the transmission lines should be focussed also towards these centres. If it is intended that electricity should truly be a support for industrial development, then it is suitable that its use by industry be given priority with a special electricity charge differing from that for general consumption.

A second problem is energy sources for electricity generation or for direct use by industry. For electricity generation the choice is between hydro-electric,

coal or thermal power. For direct use by industry the choice is only between coal and gas, in which case it is clear that coal will be the chief source. Natural gas will be used more as a chemical feedstock and reagent.

The question then becomes with what speed can coalmines be developed and at what price can coal be supplied?

As is known, Indonesian coal cannot be sold very easily in the international market due to various unfavourable properties it has. Therefore, it is better not to treat coal as a trade commodity and seek to match the price of oil, although in such an outcome the price would be adjusted according to the quality of the coal. It is better if coal is regarded instead as a substance that can be made into an industrial input with the lowest possible price. The value-added, created with coal as an energy source, and with lime and clay as raw materials for the cement industry, would compensate many times over for the reduction in the benefits of fixing the price of coal. This reasoning will become even more apparent when coal can be processed, through liquidification and gassification, to make more valuable chemical products.

To put this concept into practice several coal deposits must themselves be managed individually by national enterprises or, more precisely, by public corporations with shares totally provided by the government and with a pricing policy aimed at reaching as low as possible a price.

The importing of coal should be avoided for as long as possible. Coal importation will create all sorts of transport, handling and storage problems.

Even more importantly, importing coal will drive the domestic price to international levels which will frustrate the idea of using domestic coal as an instrument for industrial development - except where the government is prepared to consider subsidising imports.

A problem of a similar kind is found for natural gas also. It has been found necessary to balance the extent to which natural gas can be made into a source of revenue against the extent to which it can be used as a raw material for processing. Natural gas pricing policy has to be adjusted to the size of the value-added which can be created for each reprocessing method.

It can be concluded that the energy problem must be handled consistently and conceptually. Every delay in developing energy sources will involve far-reaching consequences for industrial development.

TRANSPORT AND COMMERCE

A factor which will greatly influence industrial development is the transport and trade system.

Looked at from the viewpoint of industry, and more particularly that of basic industries, with the facilities that will begin production in the next 3-4 years there will be needed a transportation capability that will reach 35-40 million tons of raw materials per year. To this figure there still must be added transportation of basic industries' inputs and energy materials, apart from transportation for the distribution of consumer goods.

For the logistical transport of these raw materials there is still being drawn up a complete plan of the necessary trunk-systems, feeder-systems and terminals in the form of various sorts of depots. Precisely because of the creation of growth-centres, the organization of this trunk-system is directed towards these centres. The feeder-system can then be organized upon the areas of concentration of downstream industries and industrial zones.

This question, however, not only involves the shape of such a pattern but there is also the choice of the most economical transportation for each industrial line.

Consistent with this pattern, for subsequent industries it will thus be easier to organise a network for the storage and packaging as well as the location of small-scale plants - a process which can be achieved in a short period of time within such a logistic network.

For exports, too, it is clear that the production and distribution process which must be gone through is still very long, especially in their handling and administration, which creates quite high overheads.

The only way to overcome the present inefficiency in the national economy and infrastructure is to create financial incentives for exporters so that Indonesia's exports can appear in the international market at a competitive price.

This is the reasoning behind Export Certificates (SE) which, apart from dealing with the drawback of the import duty paid for the import of raw materials and components, should also be used to create fair compensation until national production reaches a more stable level of production and efficiency.

In stimulating non-oil exports, particularly industrial products, perhaps there will still be required further facilities such as export financing, the possibility of exporting in consignments, a complete programme of export guarantees, etc.

For domestic distribution too, the path between the producer and the consumer is extremely long and expensive. Thus it is clear that the organisation of a more complete pattern of commerce - of logistical depots for export or for distribution - will very much encourage national industrial development.

At the moment producers must, from time to time, directly arrange the distribution of their produce which of course, involves a cost and risk carried by the producer and the product itself; this cost and risk is reflected in the price of the product.

The import-trade system also plays an important role in supporting industrial development, particularly in creating fair protection for both consumer and producer. At a time when industry still takes the form of single factories in the downstream sector, industrial protection can be easily implemented through import tariffs as the sole protective mechanism.

Because several exporting nations have also attempted to enter the Indonesian market with an excessive pricing policy, the level of domestic protection in various sectors has been raised through import tariffs - and it has even been found necessary to affect a prohibition of several articles.

Due to this rather strong protection there has arisen in the field of domestic production a tendency to raise prices: a factor borne by the consumer. The problem becomes further complicated once upstream industries begin to make intermediate and basic products which cause conflict situations to arise in the protection mechanism.

It should be clear that import tariffs alone are insufficient to provide protection while safeguarding commerce and the interests of consumers. The import system, especially, must apparently be accompanied by complementary mechanisms. At some stage standardisation can also be used as a protective device.

Therefore, with the facts outlined above, during the last year the Departments of Industry, Finance and Trade have cooperatively drawn up the basis of a new policy to effect protection. In this new concept, the problem is examined from three points of view:

- a. protection of consumer goods;
- b. protection of intermediate and basic industrial goods;
- c. protection of engineering industrial goods.

For each of these three categories, protection in the form of import tariffs shall gradually be reduced so that the domestic cost of production shall not be too great for consumers.

For raw materials and intermediate goods import tariffs will be further reduced to give upstream industries the opportunity to produce at lower costs. The import of basic and intermediate goods will be managed and directed only through certain importers so that domestic industries of the same products can develop and become capable of competing. The import of engineering goods will be managed and totally directed through pre-determined channels so as to protect the engineering industry.

With this policy it is hoped that both domestic industry and the consumer can be sheltered, and that domestic industries can be encouraged into certain fields as they gradually becoming more efficient and competitive.

FACING THE FUTURE

The above analysis has very briefly described the priorities from the basic target of industrial development in Pelita III and the following Pelita. Although today the central aim is that of the special development of basic industries and the reprocessing of raw materials into basic goods for industry, as well as various arrangements for the engineering industry, it is an established fact that the "Development Trilogy" continues to receive most attention. Thus, besides the effort to accelerate development, equal distribution through the development of miscellaneous downstream industries and of small scale industry, both as a means of distribution and as promoting self-reliance will continue to be stimulated.

In approaching these objectives from time-to-time long-term and short-term economic recessions -- such as that now evidently being confronted -- must periodically be gone through. The current world recession will perhaps pass quickly, but it is also possible that it will need 2 or 3 years to subside.

With the development which has progressed thus far, for Indonesia the problem should no longer be looked at in the short-term but in the period of the next few years and by measuring the potentialities already achieved against the possibilities that exist in the future.

From the point of view of the national reserves, an increase of income from oil cannot be hoped for, but there is every possibility that in the long run this revenue will decline. Yet, on the other hand, income from natural gas will un-

doubtedly increase and it is not over-optimistic to estimate that, by 1985 at the latest, revenue from natural gas can supplement that from oil - albeit perhaps not completely.

Such is the view from the existing potentials. Yet this potential will be unable to carry Indonesia to a stronger position than at present, if oil and gas still continue to form the dominant elements in the pattern of national exports.

It is requisite that when the recession begins to pass, exports must already be supported by an invulnerable industrial production capacity, which means an integrated industrial pattern for processed goods supported by strong and efficient basic industries. Only in such a condition can the production structure shaped by various small industries be defended and continuous development of the engineering industry be implemented.

In this transition period two central policies should receive principal attention:

- a. to continue the development of basic industries by exploiting and mobilizing all existing potentials;
- b. to develop the domestic market as much as is possible, where necessary with special programmes.

For the above-mentioned aims the national reserves should currently be sufficiently large to be used optimally. If, for example, 50 percent of existing reserves can be mobilized as equity to accelerate development, this will mean that the investment-finding base will be at least US\$ 10 billion - sufficient to construct the basic and intermediate industries, as well as several energy sources, needed.

In the effort to widen the domestic market there can be mentioned agricultural increases, not only in the form of diversification and intensification, but also through greater efficiency and productivity. Perhaps several policies undertaken in the production of food, as well as in the development of plantations, need to be reexamined.

Infrastructure projects, transmigration and housing development, while creating more equal distribution, can also increase domestic market demand if properly directed towards this market. It is an established fact that spending policy must be organized in this way so that existing reserves are not too rapidly depleted, although this policy should not be aimed at slowing down the speed of development.

One factor which is most helpful in raising monetary resilience during this transition period is a smoother and more attractive investment policy.

CONCLUSION

After analysing the picture of the industrial development process during Pelita III as it approaches a higher and more stable structure and level, one may ask: do the Indonesian people fit into this process and will industry be able to create sufficient jobs?

The problem of labour-absorbtion has become a central topic of discussion for society and there has perhaps arisen a false interpretation of the ability of industry to absorb labour.

There certainly are particular industries of a labour-intensive character which can therefore absorb a great deal of labour: Yet there are also basically capital-intensive industries, as well as those in which the choice is between a capital-intensive or a labour-intensive process.

The question is perhaps better examined when directed towards the main function of industry, viz. to provide sufficient goods at a fair price so that economic and social life can develop. The principal condition, therefore, is productivity and efficiency.- although there nevertheless, are industries such as the machinery, motor and small-scale industries which, because of their nature, are labour-intensive.

Industry cannot be regarded as the sole element in the absorbtion of labour. However, industry as one part of the total economy is certainly always able to open up possibilities for development in the fields of enterprise and employment.

The function of industry - particularly basic industry - is to strengthen the national production structure. This is one of the reasons the economy can develop and create jobs.

Basically, industry creates further enterprise and the more basic the industry, the greater is its influence upon development. Krakatau Steel, Asahan, fertiliser factories, cement and petrochemical factories do not basically absorb labour. But thanks to the creation of these very industries, other industries and economic activities in the form of hundreds, or even thousands, of big and small industries extending into the regions can exist.

The effect of an industry should not be limited to one factory alone, but we should measure the effect of its products upon other industries, upon agriculture and plantations, upon the construction of houses and upon the many other sorts of initiatives in satisfying the requirements of society. This should also be considered in the framework of the integration of the total force of industrial development leading towards national resilience, for both society and state.

Technical Change Bias of Indonesian Agriculture

Ismet AHMAD and Max R. LANGHAM

The appropriateness of technical progress in agricultural growth may be evaluated by measuring the technical change biases. The classic work of Hicks (1932) on distribution and economic progress initiated interest in technical change bias brought about by the growth process.

Until the mid-1970s technical change biases were measured using two factor models. Binswanger (1974) introduced the measurement of bias using a multi-factor cost function. Some of data required to estimate cost function are not available and extremely difficult to approximate in less developed countries like Indonesia. The concept of value added in a restricted profit function which requires less data offers an alternative for such countries.

THEORY ON TECHNICAL CHANGE

With most inventions, not all of the marginal products of factors increase at the same time. Rather, only marginal products of particular factors will raise. Hicks (1932) defined technical change bias based on the ratio of the marginal products of two factors -- capital and labour. If the ratio of the marginal product of capital to that of labour, at a constant capital-labour ratio, increases, remains unchanged, or diminishes, then the invention is called labour saving, neutral and capital saving, respectively. Labour saving inventions increase marginal product of capital more than that of labour. Neutral invention increases both marginal product by the same proportion.

This article is based on a dissertation by Ismet Ahmad (1982). Ismet Ahmad is Deputy Chairman of the Regional Scientific Development Centre, Lambung Mangkurat University, and Max R. Langham is Professor and Graduate Coordinator of Food and Resource Economics, University of Florida.

Using an isoquant map, technical progress can be pictured as an inward movement of the unit isoquant through time since progress implies a growing efficiency of production. The more efficient the production the smaller the amount of resources required to produce certain amount of output. For a neutral technical progress the new unit isoquant is parallel to the old one. For labour saving it shifts inward but more toward the capital axis. And for capital saving the shift is more toward the labour axis.

Imperfect knowledge and/or capital scarcity may cause the existence of the old and the new technology side by side. Binswanger (1978 p. 22) proposed to measure the technical change biases by looking at the differences in the amount of factors used in the new and the old technology to produce one unit of output. For the two factor models (capital and labour), a technical change is called labour saving, neutral, or capital saving, if the percentage decrease in the amount of labour used to produce one unit of output is greater, equal, or smaller than that for capital.

For an equilibrium growth, in the Hicksian sense technical change bias must be associated with a specified elasticity of substitution. A neutral technical progress for instance should be accompanied by unitary elasticity of substitution (Amano, 1964 p. 132). Technical change has also been studied in terms of its relations to growth by Solow (1956).

VALUE-ADDED CONCEPT IN MEASURING TECHNICAL BIAS

Nominal value added (NVA) is defined as gross returns minus total costs of intermediate inputs. The NVA function varies as output or input prices do. One modification is value added based on a single price deflation (SVA). Following Bruno (1978 p. 8), one can write the SVA in a restricted profit function as:

$$G = Y^*(R,Z) - R'X^*(R,Z) \quad (1)$$

in which G represents SVA, Y is a composite of gross output; X is an m by 1 vector of intermediate inputs, R represents an m by 1 vector of normalized prices of the elements of X , and Z is an n by 1 vector of primary inputs.

The following property holds on this function:

$$G_Z = Y_Z = W^* \quad (2)$$

in which W^* , the derivative of G with respect to primary inputs, gives the

shadow prices of inputs. By dividing (2) with G , one could have the income share per unit of inputs:

$$s_k = G_k/G, \quad \text{for any } k \quad (3)$$

Another modification of NVA -- the double-price deflated value added (DVA) which is defined as:

$$F = Y^*(R,Z) - X^*(R,Z)'e \quad (4)$$

with denoting a vector of 1's. Prices in the base period are normalized to be equal to 1, and the real value added is measured in the base-year output and input prices. The existence of this real value added and its use for aggregate data analysis, as concluded by Diewert (1978 p. 40-41), are justifiable provided the price of commodities within group vary in strict proportion corresponding to (3), one can write income share of primary inputs per unit of input, holding the relative prices constant, as:

$$s_k^* = F_k/F, \quad \text{for any } k \quad (5)$$

Technical change coefficient for multiple factor, in term of factor share, was defined by Binswanger (1974 p. 964) as $(d\alpha_j^*/dt)(1/\alpha_j)$ where α_j is the j^{th} factor share, and the asterisk indicates that the relative factor prices are held constant for this share change. In term of value added, the technical change bias coefficient can be measured as:

$$A_j = \left(\frac{d}{dt} \left(\frac{F_{Z_j}}{F} Z_j \right) \right) \frac{G}{G_{Z_j} Z_j} \quad (6)$$

in which $(G_{Z_j}/G)Z_j$ is the income share of j^{th} factor; $(F_{Z_j}/F)Z_j$ is the share holding relative prices constant. The change is j^{th} augmenting if A_j is positive, neutral if it is zero, and j^{th} saving if A_j is negative.

THE FUNCTIONAL MODEL

Land, labour, and fixed capital are the basic resources which are combined to produce value added in agriculture. Irrigation facilities, livestock capital, tractors, and fishing boats are major components of productive capital. Fertilizers, farm chemicals, seeds, and animal feed are considered as the major intermediate inputs.

Following (1) and (3) the models take the form of $G = G(R,Z)$ and $F = F(R,Z)$. Transcendental logarithmic (translog) functions were fitted to the

data. At least in specific regions in input space the monotonously increasing output and the convex isoquant conditions are satisfied by this functional form (Berndt and Christensen, 1973 p. 85).

Technical change biases were estimated using equation (6). Regression coefficients from the SVA translog functional model were applied to estimate G_Z , while the coefficients from the DVA function were used to estimate F_Z and dF_Z/dt . And by using the series of Z_j 's and F , the $d(Z_j/F)/dt$ were estimated. G/Z and F/Z were evaluated as the mean of the variables.

INPUT AND OUTPUT TRENDS IN INDONESIAN AGRICULTURE

Productive Inputs

The growth rates of agricultural primary inputs since Indonesia's war of independence are presented in Table 1. The annual growth rate of land, labour, and fixed capital for the entire periode, 1950-1978, were 1.02, 0.90, and 1.78 percent, respectively. These are considerably smaller than population growth rate of 2.17 percent. The slower growth of agricultural labour as compared to population indicates that a structural change has been taking place in production and employment. Relative to the total economy, agriculture has been shrinking as the economy is growing and becoming more and more diversified. Per capita agricultural land has been declining. There should be a considerable increase in productivity of land if Indonesia is to be self-sufficient in food production.

Table 1

RATE OF GROWTH IN LAND, LABOUR, AND CAPITAL IN
INDONESIAN AGRICULTURE FOR VARIOUS PERIODS
(percent)

Period	Annual Growth Rate ^a		
	Land	Labour	Fixed Capital
1950-1958	1.54	1.11	3.34
1959-1966	0.74	0.59	2.90
1967-1978	1.59	0.94	0.39
1950-1978	1.02	0.90	1.78

^aEstimated by regressing the logarithm of agricultural land, labour force, and fixed capital on time. Fix capital was composed of irrigation facilities, tractors and equipments, fishing boats, and livestock capital, valued at 1960 prices.

Both land and labour force in agriculture showed a drop in the average annual growth rate from the postwar reconstruction period to the period of the guided economy.¹

This drop indicates a stagnation in private agricultural expansion considering the fact that the State-owned Mekatani had land reclamation projects. One may argue that the intensive campaign on land reform in the years of the guided economy became a strong disincentive for farmers and private entrepreneurs to expand farm size, and there was no substantial absorption of labour force by other sectors as the economy was sluggish and highly inflationary. The growth rates of land and labour rose again during the New Order period approaching the levels attained in the postwar reconstruction years while the growth rate of fixed capital dropped substantially.

The emphasis on increased food production and the restoration of the export crop plantations in the early 1950s led to a higher proportion of public expenditure on irrigation projects. Irrigated area rose from 3.52 million hectares in 1950 to 4.03 million hectares in 1954 and to 4.36 million hectares in 1958.

During the guided economy, the emphasis was placed on mechanization by state-owned enterprises. The number of tractors jumped from 700 units in 1950 to 5,100 units in 1963 and to 6,500 units by the end of the period. Irrigated area, on the other hand, showed a slight decline -- from 4.38 million hectares in 1959 to 3.39 in 1963, and then rose slightly to 4.18 million hectares in 1966. The irrigated area began rising again in the late 1960s and increased to 5.3 million hectares by 1978.

Non-powered fishing boats showed a steady increase from 1950 to early 1970s. The number declined thereafter as they were replaced by powered boats of which the number rose sharply beginning in 1972. While non-powered fishing boats declined from 286 thousand units in 1972 to 225 thousand units in 1978, the number of powered boats increased from less than 9 thousand units to more than 22 thousand units during the same period.

Population of livestock generally increased steadily from 1950 to 1958 and then rose sharply up to 1966. The figures went down thereafter until the early 1970s. The population of buffalo, traditionally the most important large farm animal, declined throughout the new order period in part because they were replaced by tractor power. The same was true for horses. On the other hand, goats, sheep, and cattle resumed their population growth in the mid 1970s.

¹Indonesian economy after independence can be broken down into three parts -- the period of postwar reconstruction (1950-1958), the period of the guided economy (1959-1966) and the period of New Order (from 1967).

As an element of *Panca-Usaha* (five efforts to increase production), consumed fertilizers have been increasing rapidly. Table 2 shows that the average annual consumption of nitrogen in the first four years of Pelita II (1974/1975-1977/1978), was more than 28 times that of the early years of the Republic. Annual consumption of phosphate rose more than 26 times, while potash rose more than 18 times.

Table 2

AVERAGE ANNUAL CONSUMPTION OF FERTILIZERS IN
INDONESIA FOR VARIOUS PERIODS (1,000 tons annually)

Period	Nitrogen (N)	Phosphate (P ₂ O ₅)	Potash (K ₂ O)
1949/1950 - 1953/1954	13.42	4.40	1.48
1954/1955 - 1957/1958	23.88	8.17	3.40
1958/1959 - 1961/1962	47.78	21.97	6.38
1962/1963 - 1965/1966	89.30	24.75	3.48
1966/1967 - 1968/1969	137.77	24.50	5.53
1969/1970 - 1973/1974	252.67	53.12	17.60
1974/1975 - 1977/1978	375.83	116.60	26.88

Source: Based on annual consumption of 1950/1951 to 1968/1969 reported by *FAO Production Yearbook*, various issues, and 1969/1970 to 1977/1978 reported by *UN Statistical Yearbook*, various issues.

The use of farm chemicals for rodent, pest and disease controls have been growing. Import of these chemicals grew steadily from 1950 to the early 1960s, dropped in the mid-1960s and then resumed an upward trend in the last part of the decade.

High-yielding seeds have also been emphasized. The innovation of IR-5 and IR-8 by International Rice Research Institute (IRRI) marked a new impetus in rice production. These two high yielding varieties were soon introduced and adopted by the farmers in 1967. Several other varieties which were considered to have better quality and/or higher resistance to certain disease such as IR-36 have followed. It is not surprising to note that trends in the consumption of fertilizers, new seeds, and farm chemicals are very much related to trends in irrigated area. The effectiveness of these inputs, particularly for annual crops, depends on water control.

Agricultural Output

Total agricultural production grew at a rate of 3.99 percent annually in the post-war reconstruction period (Table 3). The rate went down to 1.66 percent annually in the years of the guided economy and increased to 3.80 percent in the New Order period. Among all agricultural commodity groups, food crops received the most attention in all periods. The rate of growth of this commodity group was 5.17 percent a year in the 1950-1958 period, substantially higher than the population growth rate and of total agriculture. In the 1967-1979 period the annual growth rate was 3.51 percent, which was also higher than the population growth rate. Despite the intensified campaign of self-sufficiency in food, the guided economy failed to maintain a rate of growth from falling below the population growth rate. The annual rate was 1.27 percent as compared to a 2.09 percent population growth rate.

Table 3

GROWTH RATE OF AGGREGATE PRODUCTION IN INDONESIAN AGRICULTURE, BY VARIOUS PERIODS (percent)

Period	Annual Growth Rate ^a	
	Total Agriculture	Food Crops
1950-1958	3.99	5.17
1959-1966	1.66	1.27
1967-1978	3.80	3.51
1950-1978	2.84	3.41

^aEstimated by regressing the logarithms of aggregate production on time. Basic data on food crop index and 1950-1951 index for total agriculture are from *AID Statistical Report*, No. 7, December 1980; total-agriculture index is based on *FAO Yearbook of Food and Agricultural Statistics* and *FAO Production Yearbook*, various issues.

Meat and fish production showed higher growth rates in the third period than in the previous period. This increase was partly due to government efforts to improve the quality of food toward higher protein. Increased growth was also experienced in forest production and to a lesser extent in export crops. The government was determined on increasing export earnings in order to finance development projects which were needed after the near collapse of the economy in the mid-1960s.

All of the six major food crops -- rice, maize, cassava, sweet potatoes, soybeans, and peanuts -- rose at rates substantially higher than the population growth rate during the postwar reconstruction years. Non-rice food grew rapidly: sweet potatoes at 8.35 percent annually, cassava at 6.72 percent, soybeans at 6.75 percent, maize at 4.94 percent, and peanuts at 4.74 percent. These growth rates indicate a diversification in the food supply during this period.

The second period, 1959-1966 was marked with downward trends in soybeans and cassava. Growth rates were 1.18 and 0.04 percent respectively. Sweet potatoes, peanuts, and rice grew at rates of 0.10, 0.55 and 1.15 percent respectively -- considerably below the population growth rate. The national campaign for increasing food production was only able to maintain a high growth rate of maize production at 3.82 percent a year.

Striking differences were shown by the period 1967-1979 in the rate of growth of food commodities as compared to the immediate preceding period. In the New Order period, rice and peanuts showed the highest growth rates. Soybeans and maize grew at about half the respective rates of the postwar reconstruction period.

Commercial crops which are largely exported depend on world markets. After the 1951 Korean War boom, the price of major export crops, notably rubber, declined considerably. Despite the expansion in planted area of rubber from 1951 to 1957 as a response to the good price in 1951, production declined from 1953 to the mid-1950s. The growth of production was very slow (0.95 percent a year) up to the mid-1960s.

Coffee showed a rapid growth of 7.76 percent per year during the period of the guided economy. This increase was due to a sharp increase in coffee prices. Oil palm maintained its growth rate at about 3 percent a year. The production of coconut, tea, and tobacco declined during this highly inflationary period.

All of these commercial crops showed upward trends in production during the period of 1967-1979. Oil palm production grew at a rate exceeding 11 percent a year, followed by tobacco and coconut at 4.00 and 3.61 percent respectively. Tea also trended upward in this period, although the rate was smaller than that in the postwar reconstruction period. Coffee showed a decline in the rate of growth to 2.05 percent during this latter period.

Number of cattle slaughtered rose throughout the period of 1950-1979 with a slowing down in the late 1960s. Beef production grew at a rate higher than that of population growth in the first two periods, but declined in the period of 1967-1978. Non-beef meat production showed the highest growth rate in the latest period and caused a downward adjustment in number of animals on farms.

Fisheries make up an important sub-sector in the Indonesian economy, since this country is an archipelago with long coast-lines. The level of production of marine fisheries has risen since the early period of the Republic. In 1951 production from marine fisheries was 1.7 times that of inland fisheries. During the postwar reconstruction period and half of the guided economy period inland fisheries grew at 5.3 percent a year as compared to 3.8 percent for marine fisheries. Licence given to foreign fishing enterprises resulted in increased growth rate in production from marine fisheries. From 1971 to 1978 the production rose from 450 thousand tons with an average growth rate of more than 6.5 percent a year. Inland fisheries declined slightly in the same period. The areas of brackish water ponds, fresh water ponds and paddy field under fish culture have been declining.

TECHNICAL CHANGE BIASES

Agriculture is a biological-chemical type of industry. Its technical progress can be observed through the trends of current inputs such as fertilizers, farm chemicals, seeds, feeds, and fuels, being used in production. It has been shown that the rate of increase in the use of fertilizers has been high. Except in the mid-1960s, the use of farm chemicals also increased steadily. As indicated by the ever increasing number of tractors and motorized fishing boats, the use of fuel must have been rising. All of these trends suggest that there has been a steady process of adopting new technologies in Indonesian agriculture.

Technical change bias was measured using equation (6) and based on the regression coefficients of the translog models of SVA and DVA. The regression coefficients of the models are presented by Table 4.

A decreasing income shares of fixed capital has accompanied the technical progress. As shown in Table 5, the technical change bias with respect to capital is negative (-0.28) which means that the production growth has been capital saving. Zero coefficient with respect to labour implies a labour neutral technical change. And with respect to land the change has been very slightly augmenting -- the coefficient is 0.01.

Capital saving growth is commonly pursued by less developed countries due to the scarcity of this productive factor. The neutral technical change with respect to labour and close to neutral with respect to land could be explained using the fact that Indonesia is composed of two groups of regions which differ substantially in man/land ratios. In Java, Madura and Bali -- where the ratios are very high -- the expansion of agricultural land areas has been very limited. Therefore, labour augmenting and land saving technological changes

Table 4

ESTIMATED REGRESSION COEFFICIENTS FOR THE TRANSLOG MODEL ON
SINGLE-AND DOUBLE-PRICE DEFLATED VALUE ADDED
(SVA AND DVA), 1950-1978

Regressors	Dependent Variable ^a			
	$\ln G$		$\ln F$	
	Coefficients	Standard Errors	Coefficients	Standard Errors
Constant Term	-39.0605	230.9193	131.8054	45.3910
$\ln R$	-7.0219	8.2747	1.1679	1.6265
$\ln Z_1$	-98.2032	314.2805	53.6825	61.7771
$\ln Z_2$	149.8314	476.2008	-176.2189	93.6052
$\ln Z_3$	-28.2727	75.4147	35.6697	14.8240
$\ln R * \ln R$	-0.0676	0.5077	-0.0099	0.0998
$\ln Z_1 * \ln Z_1$	-31.6812	117.0126	5.9190	23.0008
$\ln Z_1 * \ln Z_2$	172.4918	379.0220	-40.0824	74.5031
$\ln Z_1 * \ln Z_3$	-62.5410	65.5147	9.6765	12.8780
$\ln Z_2 * \ln Z_2$	-148.2931	294.1137	58.8619	57.8130
$\ln Z_2 * \ln Z_3$	72.5033	93.9806	-20.3825	18.4735
$\ln Z_3 * \ln Z_3$	-3.3330	9.5252	0.4066	1.8723
$\ln R * \ln Z_1$	-6.3270	6.7960	0.4344	1.3358
$\ln R * \ln Z_2$	12.2637	8.9470	-1.1539	1.7586
$\ln R * \ln Z_3$	-3.3276	1.4586	0.2968	0.2867
	$\bar{R}^2 = 0.8482$		$\bar{R}^2 = 0.9938$	
	n = 29		n = 29	

^a G symbolizes SVA and F represents DVA; both are in billion of 1960-rupiahs. R stands for the normalized price of intermediate inputs (1960=1.00); Z_1 is the acreage of agricultural land (million hectares), Z_2 is labour force engaged in agriculture (million workers); Z_3 is fixed capital (billion 1960 rupiahs); \ln symbolizes natural logarithm, \bar{R}^2 is corrected coefficient of determination; and n represents the number of observations. See dissertation by Ahmad (1982) for the development of the data.

Table 5

ESTIMATED COEFFICIENTS OF TECHNICAL CHANGE BIASES IN
INDONESIAN AGRICULTURE, 1950-1978

Source	Bias Coefficient of Technical Change ^a
Agricultural Land	0.01
Labour Force	0.00
Fixed Capital	-0.28

^a Estimates based on equation (11). $G_{Z_j} Z_j/G$ for any $j=1,2,3$, were estimated using the coefficients from the translog model for SVA with Z_j 's were evaluated at their geometric means. Allowing all components to vary, $d(F_{Z_j}(Z_j/F)/dT)$ can be written as $(Z_j/F)(dF_{Z_j}/dT) - F_{Z_j}(d(Z_j/F)/dT)$.

F_{Z_j} 's were obtained from the DVA translog model.

dF_{Z_j}/dT 's were estimated by taking total derivate of F_{Z_j} 's and applying the means of Z_j/F , $d(Z_j/F)/dT$ and $d(R/dT)R$ for all j 's.

can be expected. On the other hand, the outer islands -- Kalimantan, Sumatra, Sulawesi, Irian, and others -- provide the opportunities for land expansion and facilitate labour saving and land using technological changes.

POLICY IMPLICATIONS

The capital-saving technical change bias experienced by Indonesian agriculture is appropriate and commonly pursued by less developed countries where capital is scarce. In such countries capital is the key to foster progress in their agricultural sector. Due to its scarcity increasing the efficiency of capital used in production is crucial.

Labour-neutral and the slightly land-using technical changes need further explanation because diversities in population density and natural resources are substantial in Indonesia. In Java, Madura, and Bali land-using technical change biases seem appropriate since the man-land ratio is very high. On the other hand, land-using technical change is more appropriate for the outer islands.

Regional data would permit more meaningful estimates of technical change biases.

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Indonesia's Trade Relations with the Socialist Countries

Rustian KAMALUDDIN

INTRODUCTION

Like most of the developing countries, trade and economic relations between Indonesia and Socialist countries, thus far, are still relatively insignificant. In 1971 trade activities were only 2.5 percent of the country's trade value, and there had been a downward trend in the following years. Consequently, the trade share in 1980 fell to only 1.3 percent. On the other hand, prolonged recessions in the developed market economies which resulted in growing protectionism against exports from developing countries, particularly for semi-finished and manufactured goods, seems to be the main problem for such low trade relations. Nevertheless, it is argued that the potential to develop the trade and economic relations between Indonesia and the Socialist countries is indeed great and there are always possibilities to utilize.

Since exports are crucial to Indonesian economic growth, one of her potential outlets is to expand its trade and economic relations with the rest of the world. For this purpose, the government has decided to make some adjustments and revisions to the past export policies and also formulated new ones. All of these efforts are intended to encourage the country's export expansion

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and promote her competitive position in the world market. With respect to the Socialist countries, more specific efforts have been made such as: renewing the trade agreements, trade mission visits, trade fairs, etc. Nevertheless, experience in the past indicates that the results were not so impressive. Therefore, besides continuing the previous efforts, it is also necessary to look for some new ideas and policies that would lead to the expansion of trade and economic relation with Socialist countries.

Accordingly, the objectives and scope of this study are as follows: Firstly, to identify, analyze and evaluate the ways and means for expanding the trade and economic relations between Indonesia and Socialist countries. Secondly, to investigate the costs and benefits resulted from these activities. Thirdly, to provide some alternative recommendations for promoting the trade and economic relations in harmony with the development goals of Indonesia.

In this context, the Socialist countries are defined as including the Council for Mutual Economic Aid (CMEA) countries and the People's Republic of China (PRC). However, some countries of the CMEA do not have trade and economic relations with Indonesia, i.e., Mongolia and Cuba.¹ Thus, the relevant CMEA countries that will be analyzed are: Czechoslovakia, Democratic Republic of Germany, Hungary, Poland, Romania, Bulgaria, United Socialist of Soviet Russia, and the Socialist Republic of Vietnam. Trade relations between Indonesia and the PRC has been abolished since the strained situation between the two countries in 1966 when direct trade was officially prohibited one year later. However, indirect trade relations especially via Hong Kong and Singapore still continue. Hence, the PRC should be included in this analysis.

Review of the Trade Agreements

Observed from the Indonesian position, the GBHN (Broad Guidelines of the State Policy) stated, that the country has to carry out a "free and active policy" devoted to the national interest, especially in the field of development needs. Moreover, foreign cooperation among developing countries is encouraged to speed up the implementation of the New International Economic Order. For this purpose, Indonesia makes efforts to increase her role in establishing friendship and cooperation based on mutual benefit among nations. Based on the guidelines stated above, the government adopts policies toward closer international economic cooperation.

As a consequence of the abortive communist coup in Indonesia at the end of September 1965, trade and economic relations between Indonesia and the

¹Negligible or not registered separately in the Central Bureau of Statistics publication.

Socialist countries have been largely affected. Furthermore, based on political and security consideration, diplomatic relations between Indonesia and the PRC have been broken off until now.

In this relation, the Indonesian government considered that trade and economic relations arranged by agreements before the end of September 1965, had to be renewed by giving priority to the socialist countries of Eastern Europe. In this connection, new trade agreements were signed by the government of Indonesia and those of the Socialist countries, i.e., with Bulgaria in 1968, with USSR, Poland, Hungary, and East Germany in 1974, and with Romania and Czechoslovakia in 1975.

Generally, the trade agreements (bilateral relations) between Indonesia and the Socialist countries of Eastern Europe contain the following general principles.

First, both parties carry out bilateral relations with desire to promote and strengthen the trade relations based on the principle of equality and mutual benefit, and shall develop trade relations on the basis of the most-favoured nation treatment as well as on the bases of other provisions of the General Agreement on Tariffs and Trade.

Second, the provisions such as those stated above shall not be applied to: (a) the facilities which were granted or may be granted to facilitate frontier traffic by either of the two parties; (b) the advantages resulting from a customs union and free trade area which has been or may be concluded by either of the two parties; and (c) the advantages and facilities which were granted or may be granted by either of the two parties to developing countries in geographical areas where either of the two countries is situated.

Third, the two parties in their reciprocal trade relations, shall remove, if there are any, nor will they impose discriminatory restrictions on the importation and the exportation of any products between these two countries.

Fourth, all trade between the two countries shall be effected in accordance with the laws, rules and regulations in force in each of the two countries. And all trade relations between the two countries will be carried out by export and import enterprises which will be licenced and appointed by either of the two countries.

Fifth, ships of each country and their cargoes, passengers, and crews shall enjoy free right of entry, exit and stay in ports of the other country with advantages similar to those accorded by its respective laws, rules and regulations to ships sailing under the flag of third countries.

Sixth, in order to promote the trade between the two countries, the two parties will facilitate participation in trade fairs to be held in other countries and the organization of commercial exhibitions by one of the parties in the territory of each other under the terms to be agreed upon by competent authorities of the two countries, in accordance with the laws, rules and regulations in force in each of the two countries.

Seventh, all payments arising from trade between the two countries shall be effected in freely convertible currencies.

Eighth, the trade agreement shall be valid for a period of one year, and automatically extended for another year and thereafter, for further successive periods of one year each, unless one of the parties states its objection.

Furthermore, trade relations have taken place between Indonesia and other Socialist countries including Vietnam, but without an agreement. Before 1975, trade relations was held only with the South Vietnam, but since that year trade relations have been carried out with the Socialist Republic of Vietnam (which encompasses North and South Vietnam).

A very different case occurs in the trade relations with the People's Republic of China (PRC). As mentioned earlier, since 1966 direct trade relations with the PRC has been stopped as a consequence of the tense situation and the breaking off of diplomatic relations with the PRC. However, since 1977 there have been some approaches between the two countries, unofficial relations, such as the visits of KADIN (the Indonesian Chamber of Commerce and Industry) to the PRC. The two parties have been aware of the necessity of opening again relations, especially that of trade, between the two countries. But because of technical, political and psychological obstacles, the relation has not yet been normalized.

GROWTH OF TRADE WITH THE SOCIALIST COUNTRIES

Indonesian Trade Balance: The Countrywide versus the Socialist Countries

Since 1971, total Indonesian trade with foreign countries, including oil and liquefied natural gas (LNG), has indicated a positive balance for Indonesia. However, without oil and LNG, the trade balance has been always negative, except in 1979. Conversely, the Indonesian trade balance with the Socialist countries as a bloc has always been negative. To get some more detailed comparison between the Indonesian world trade and those with the Socialist countries as a bloc see Table 1.

Table 1

INDONESIAN TRADE BALANCE: THE REST OF THE WORLD AND
THE SOCIALIST COUNTRIES, 1971-1980 (in US\$ million)

Indonesian Trade with:	1971	1974	1977	1980
<i>Rest of the World^a</i>				
Export (X)	1,233.6	7,233.3	10,852.6	21,908.9
Import (M)	1,102.8	3,841.9	6,230.3	10,834.4
Total Trade (X + M)	2,336.4	11,268.2	17,082.9	32,743.3
Trade Balance (X-M)	+ 130.0	+ 3,841.9	+ 4,622.3	+ 11,075.5
<i>Socialist Countries</i>				
Export (X)	12.7	39.7	56.6	142.1
Import (M)	46.5	188.8	189.6	265.6
Total Trade (X + M) ^b	59.2	228.5	246.2	407.7
	(2.53)	(2.03)	(1.44)	(1.25)
Trade Balance (X-M)	-33.8	-149.1	-133.0	-123.5

^aIncluding oil and LNG.

^bFigures in parenthesis indicate the percentage share of total trade compared to the rest of the world.

Source: Calculated from the Central Bureau of Statistics, *Exports by Commodity, Country of Destination and Port of Export*, annual issues 1971-1980 and *Imports by Commodity and Country of Origin*, annual issues 1971-1980.

This implies that, during the last decade total Indonesian trade with the rest of the world (global) increased steadily at a high rate, i.e., with the average growth rate of 34.1 percent per year. Similarly, trade with the Socialist countries also increased every year, but at a slightly lower rate i.e., with the average growth rate of 29.3 percent per year. However, because the percentage share of trade with the Socialist countries as a bloc was relatively small, its role in total foreign trade of Indonesia decreased continuously from 2.3 percent in 1971 to only 1.25 percent in 1980. This indicates that Indonesia's trade balance with the rest of the world was always positive or surplus and the amount increased continuously at a high growth rate, i.e., at 63.9 percent per year. On the other hand, trade with the Socialist countries, because the rate of increase of imports was always greater than that of exports, the trade balance with the bloc of Socialist countries was always negative or deficit. These negative trade balance increased at the average growth rate of -15.5 percent per year. But, after further scrutinizing it seems obvious that the high trade deficit with the Socialist countries was a consequence of a highly negative indirect trade with the People's Republic of China, via third countries.

Distribution of Trade with the Socialist Countries

By describing the trade relations with the Socialist countries in detail it is clear that most of the trade balances with them were negative for Indonesia. This means that most of the imports from the Socialist countries were greater than the exports. Furthermore, trade with the PRC, via third countries, were quite unbalanced, i.e., almost all of them were in the form of imports only, while exports were only in very small amounts or negligible. An exception was Indonesian trade with USSR, which is generally in surplus for Indonesia. Table 2 provides the detailed figures.

Table 2

INDONESIAN TRADE BALANCE: BILATERAL TRADE WITH THE SOCIALIST COUNTRIES (in US\$ thousand)

Country	1971	1974	1977	1980
1. Czechoslovakia	-2,390	-260	+ 7,602	+ 13,125
2. East Germany	-257	+ 1,709	+ 908	+ 8,167
3. Hungary	-310	-1,403	-1,903	+ 12,340
4. Poland	-791	-34,791	-353	-11,228
5. Romania	-20	-7,035	-2,848	-45
6. Bulgaria	-257	-6,393	-972	-1,621
7. USSR	-2,212	+ 13,166	+ 22,118	+ 54,167
8. Vietnam	-	-	4,044	-122
9. PRC	-27,552	-113,945	-153,475	-197,273
Total	-33,789	-149,132	-132,987	-123,490

Note: Mark (-) means the value is none or negligible.

Source: Calculated from the Central Bureau of Statistics, *Exports by Commodity, Country of Destination and Port Export*, annual issues 1971-1980 and *Imports by Commodity and Country of Origin*, annual issues 1971-1980.

During the last decade, Indonesia always had a trade deficit with the Socialist countries. Almost all of these deficits were caused by a highly negative trade balance with the PRC, in which Indonesia's imports were great while her exports to that country were very low or negligible.

Furthermore, it can be explained here that some of Indonesia's trade balances with certain countries such as Poland, Romania, Bulgaria and the

Socialist Republic of Vietnam were always negative. Some others, i.e., with USSR and East Germany, were always in surplus. Czechoslovakia's trade balance has been unstable, i.e., for several years there was a deficit, but for several years there was a surplus in the balance of trade with Indonesia. Therefore, it can be summarized that Indonesia's trade balance with the Socialist countries of Eastern Europe, except for the USSR and East Germany, were generally unstable, while those with the Socialist countries of Asia, especially with the PRC and the Socialist Republic of Vietnam, were always in deficit.

By paying attention to the role and share of Indonesia's trade with each of the Socialist countries, clarified figures on the distribution of this trade can be shown. On the export side, the share of trade with the USSR was the highest while the smallest was with Vietnam and Bulgaria. Further information on the percentage value of exports and imports by country are shown on Table 3.

Table 3

INDONESIA'S TRADE SHARE WITH THE SOCIALIST COUNTRIES
1971-1980 (in percentage value)

Country	1971	1974	1977	1980
<i>Export to:</i>				
1. Czechoslovakia	0.91	3.91	14.53	18.42
2. East Germany	0.20	6.89	9.17	8.15
3. Hungary	-	0.03	1.81	11.61
4. Poland	18.61	21.75	11.68	8.57
5. Romania	0.01	2.31	2.17	4.31
6. Bulgaria	0.01	-	0.56	0.49
7. USSR	80.26	65.51	56.90	51.31
8. Vietnam	-	-	0.31	0.01
9. PRC	-	-	-	-
<i>Imports from:</i>				
1. Czechoslovakia	5.39	0.88	1.49	2.84
2. East Germany	0.61	0.54	1.95	1.83
3. Hungary	0.67	0.75	1.55	1.57
4. Poland	6.78	23.09	3.67	8.81
5. Romania	0.04	4.21	2.15	2.32
6. Bulgaria	0.55	3.39	0.68	0.89
7. USSR	26.67	6.79	5.35	7.44
8. Vietnam	-	-	2.23	0.05
9. PRC	59.29	60.35	80.96	74.27

Note: Mark (-) means the percentage value is none or can be ignored.

Source: Calculated from the Central Bureau of Statistics, *Exports by Commodity, Country of Destination and Port of Export*, annual issues 1971-1978 and *Imports by Commodity and Country of Origin*, annual issues 1971-1980.

This indicates that the share of Indonesia's exports to the USSR was the largest of the total exports to the Socialist countries, but decreased afterwards. Thereafter, it was followed by Poland which had a decreasing share too. The smallest one came from Bulgaria and Vietnam, while the PRC's share was none or could be ignored.

On the import side, rather different figures can be noted, of which a predominant role was that of the PRC; here, the trend has been increasing followed by the USSR but with a decreasing trend. Finally, the other countries were generally similar to those of the export side. The smallest one was the imports of the Socialist Republic of Vietnam.

Thus, it can be concluded that, although the PRC played a predominant position as to its imports, it could not play any role whatsoever on the export side. By excluding the trade pattern with the PRC the predominant trade position with the Socialist countries was that of the USSR. Then, on the average it was followed successively by Poland, Czechoslovakia, etc. With Bulgaria and the Socialist Republic of Vietnam at the end.

The Terms of Trade: The Developed Market Economies versus the Bloc of Socialist Countries

This section outlines the improving trade between Indonesia and the developed market economies versus that of the Socialist countries as a bloc. The terms of trade will be analyzed here only with respect to net barter and the income terms of trade. The net barter terms of trade, is the ratio of the export unit value index to the import unit value index,² while income terms of trade, is the export quantum index multiplied by the net barter terms of trade.³

Based on price relations only, a rise in the Net Barter Terms of Trade (NBT) indicates that a larger volume of imports could be received in exchange for a given volume of exports. In this context, it can be seen from Table 4 that during the period of 1971-1974 NBT with the Socialist countries were always higher than the NBT with DME. Afterwards, the following year (1975) NBT with the Socialist countries decreased sharply to 32.3 percent, while NBT with the DME also decreased, but with lower rate, i.e., 17.4 percent. Thus, the successive years indicated that NBT with the Socialist countries

²Gerald M. Meier, *The International Economics Theory of Development*. Harper & Row Publishers New York, 1966, pp. 41-43.

³An-Jae Kim, "Korean Economic Development and International Linkages," *The Journal of East Asian Affairs*, The Research Institute for International Affairs, 1981, pp. 238-239.

Table 4

INDONESIAN TERMS OF TRADE: THE DME COUNTRIES VERSUS
THE SOCIALIST COUNTRIES, 1971-1980^a
(1974 = 100)

Year	Net Barter Terms of Trade		Income Terms of Trade	
	DME	Socialist Country	DME	Socialist Country
1971	37.4	53.2	24.5	57.5
1972	40.5	92.2	31.7	56.7
1973	52.7	90.3	52.6	48.5
1974	100.0	100.0	100.0	100.0
1975	82.6	67.7	69.8	83.5
1976	74.9	67.6	73.2	91.8
1977	75.2	84.2	81.9	91.7
1978	78.6	74.5	87.2	140.8
1979	99.4	87.3	112.8	169.0
1980	140.6	99.6	145.8	200.3

^aThe DME includes only the USA, Canada, the EEC, Australia, and Japan.

Source: Calculated from the Central Bureau of Statistics, *Export by Commodity, Country of Destination and Port of Export*, annual issues 1971-1980 and *Imports by Commodity and Country of Origin*, annual issues 1971-1980.

increased, but with relatively low rate, so that in 1980 it still had not yet reached 100.0 (i.e., only 99.6). On the other side, NBT with the DME first decreased from 1975 to 1976. But thereafter it increased steadily, so that NBT reached 140.6 in 1980.

Hence, from the point of view of Income Terms of Trade (ITT) this means that a rise of ITT indicates the sales of exports. This means that her capacity to import, based on exports, has increased. So that, it should be used simply as a measure of quantity of imports bought by exports. Thus, an increase of ITT as seen on Table 4 means an increase of Indonesian capacity to import goods in a larger volume of the selling revenue of its imports.

In that context, it can be seen from the Table that Indonesia's ITT with the Socialist countries in 1971 was relatively higher than that with the DME. But, thereafter, until 1973 ITT with the Socialist countries decreased while that with the DME increased. Nevertheless, from 1973 to 1974 ITT with the Socialist countries increased much higher than that of the DME. Hence from 1974 to 1975 she suffered a decrease of both ITT, but the decrease of ITT

with the Socialist countries was not as steep as that with the DME. Nevertheless, thereafter ITT with the Socialist countries increased steadily every year at the average growth rate of 19.1 percent per year, so that it reached 200.3 in 1980. Meanwhile, ITT with the DME had also been increasing continuously since 1975, but with a relatively lower average growth rate, i.e., 15.9 percent per year, so that it reached 145.8 in 1980.

In general, it can be stated that, viewed from the NBT growth it seems that the differences between NBT with the Socialist countries and that with the DME were not so great - except in 1980 when that with the Socialist countries was rather low. On the other side, ITT with the Socialist countries indicated generally, compared to that of the DME, that its growth has become more favourable to Indonesia.

Trading Commodities

By using two digits of commodity grouping according to SITC Section, we can see the kinds of commodities traded between Indonesia and the Socialist countries. Export commodities included in Table 5 are only those with a value of 0.5 percent or more of the total exports to the Socialist countries. However, import commodities included are only for those with a value of 2.5 percent of the total imports from the Socialist countries as a bloc.

Table 5 shows that, on the one side, the variety in Indonesia's export commodities to the Socialist countries were few and limited, and the main exports were those of agriculture and mining products. Moreover, export value was concentrated in crude rubber while other sorts of commodities were very few and limited. On the other side, the Indonesian import commodities from those countries were many and varied especially in the form of manufacturing industry and mining products.

Thus, notwithstanding the trade defects and inequalities between both sides, either in terms of the kinds of trading commodities or of the value of exports and imports, it is relatively less favourable for Indonesia. Especially for exports, in this context, it is necessary to take some measures and efforts toward export diversification, so that the variety of export commodities can be increased. Moreover, some measures need to be taken to decrease the great dependence on only one kind of export commodity group by intensifying the export of the weak commodities although they may be less interesting.

Table 5

MAIN INDONESIAN EXPORTS AND IMPORTS BY SITC SECTION COMMODITY
GROUP, 1975-1980 (in percentage value)

Year	Export and Import Commodity
<i>Exports to the Socialist Countries</i>	
1975:	Crude rubber (75.2 percent); non-ferrous metals (11.6 percent); coffee, tea, cocoa, spices (7.4 percent); wood, lumber and cork (0.9 percent); med. & pharmaceutical products (0.8 percent).
1977:	Crude rubber (78.9 percent), coffee, tea, cocoa, spices (10.1 percent); non ferrous metals (10.0 percent), med. & pharmaceutical products (0.0 percent).
1979:	Crude rubber (74.8 percent); non-ferrous metals (11.3 percent); feeding stuff for animals (2.8 percent); wood and cork (0.5 percent).
1980:	Crude rubber (80.1 percent); coffee, tea, cocoa, spices (11.0 percent); non ferrous metals (7.6 percent); feeding stuff for animals (10.0 percent).
<i>Imports from the Socialist Countries</i>	
1975:	Cereal & cereal preparation (44.5 percent); manufactured fertilizer (26.1 percent); petroleum & petroleum products (6.3 percent), machinery other than electronic (3.7 percent); sugar, sugar prep, and honey (3.0 percent).
1977:	Cereal & cereal preparations (44.5 percent); textile yarn, fabrics & product (8.4 percent); machinery other than electronic (8.1 percent); manufactures of metals (6.1 percent); chemical elements & compounds (5.8 percent); textile fibres & their waste (5.1 percent); miscellaneous manufactured articles (3.8 percent); electronic machinery, app. & appl. (3.5 percent); non metallic minerals (2.7 percent).
1979:	Chemical elements & compounds (12.2 percent) machinery other than electronic (11.1 percent); textile yarn, fabrics & prod. (9.4 percent); metal manufactures (8.7 percent); fertilizer (6.3 percent); textile fibres & their waste (5.5 percent); iron & steel (5.1 percent); non metallic mineral (4.3 percent); paper, paperboard & such like (4.0 percent); fruit & vegetables (3.6 percent); miscellaneous manufactured articles (3.4 percent); electronic machinery, app. & appl. (3.1 percent); plastic metals & art. resin (2.5 percent).
1980:	Machinery other than electronic (10.7 percent); textile yarn, fabrics & prod. (9.5 percent); sugar, sugar prep. and honey (8.5 percent); textile fibres & their waste (6.9 percent); manufactures of metal (6.8 percent); iron & steel (5.7 percent); chemical elements & compounds (3.7 percent); paper, paperboard & thereof (3.7 percent); transport equipment (3.4 percent); plastic metals & art. resin (3.1 percent); electronic machinery, app. & appl. (3.0 percent); fruit & vegetables (2.8 percent); miscellaneous manufactured articles (2.7 percent); non metallic mineral (2.6 percent).

Source: Processed from the Central Bureau of Statistics, *Exports by Commodity, Country of Destination and Port of Export*, and *Import by Commodity and Country of Origin*, annual issues, 1975-1980.

Trade Surplus/Deficit and Indonesian Balance of Trade

As mentioned earlier Indonesian trade with foreign countries, during the last decade always showed positive trade balances, while those with the Socialist countries as a bloc always showed a deficit.

On the other side, Indonesian service trade, either with foreign countries or with the Socialist countries, was always experiencing a deficit every year, and these deficits increased steadily in the next years. As an overall figure it can be summarized in the following Table 6.

Table 6

INDONESIAN TRADE BALANCE 1974/1975-1980/1981 ^a (in US\$ million)				
	1974/1975	1975/1976	1978/1979	1980/1981
1. Freight and Insurance (net)	-726	-1,242	-1,301	-1,898
2. Foreign Travel (net)	- 58	- 100	- 120	- 252
3. Investment Income (net)	-1,256	-1,249	-1,925	-3,132
4. Government, not including elsewhere (net)	- 16	- 40	- 40	- 106
5. Other Services	-171	- 207	- 679	-1,019
Invisible Balance	-2,227	-2,838	-4,065	-6,407
Visible Balance	+2,089	+2,040	+2,910	+8,582
Balances of goods and Services	-138	- 802	-1,155	+2,175

^aBudget year, i.e., from April 1 of the year to March 31 of the next year.

Source: Calculated from Bank Indonesia, *Budget Year Report*, annual issues, 1974/1975-1980/1981

From Table 6 it can be seen that most of the total cost of services (net) came from that of investment income, in which was included investment income from the field of petroleum and LNG, and those from direct investment and others. Then, it was followed by cost of transportation (net) including cost of freight and insurance for exporting and importing commodities -- or for other transport costs.

The deficit in investment income (net) increased steadily with an average growth rate of 16.4 percent per year. Furthermore, the deficit in transportation cost also increased continuously every year, at a rate of 17.4 percent per year. In total, deficit in service balance increased steadily from \$ 2,227 million in 1974/1975 to \$ 6,407 million in 1980/1981, and this means an increasing rate of 19.3 percent annually.

By combining the balance of trade of goods (visible) with that of services (invisible), by and large Indonesia suffered a relatively small deficit every year. A relatively high deficit in the balance of services was compensated by a relatively significant surplus in her balance of goods. The deficit in the current balance amounted to \$ 138 million in 1974/1975 and this increased continuously to \$ 1,155 million in 1978/1979. But Indonesia's current balance began to show a surplus which amounted to \$ 2,198 million in 1980/1981.

With regard to the balances of trade of Indonesia with the bloc of Socialist countries, those of trading goods, and of services always suffered a deficit every year. This, certainly, caused a decreasing or negative effect on Indonesia's trade balance (globally). Thus, the deficit would decrease or suppress the surplus trade balance. Since deficit of the trade balance with the Socialist countries was relatively insignificant while the total Indonesian trade balance surplus was relatively high, due to the continuously increasing trade balance surplus before 1980/1981, it was continuously increasing every year. Thus, the deficit of the trade balance of Indonesia with the Socialist countries was not significant enough as to suppress Indonesian trade balance as a whole.

Looking at the bilateral trade with the Socialist countries separately, as seen in Table 2, it was evident that in the last decade trade with countries such as USSR, was generally surplus, and with certain countries, such as Czechoslovakia, Hungary, there was a surplus and for several years there was a deficit. While with the others, i.e., China and Vietnam, the balances were always in deficit for Indonesia. In this context, most of the Socialist countries did not force or set an equilibrium as a condition for trade balance. On the other hand, certain countries which experienced a deficit in their trade balance with Indonesia would force Indonesian exporters to buy commodities from them in order to achieve an equal trade balance. When Indonesia experienced a deficit trade balance she would try to do likewise. As a matter of fact, those measures could increase total trade, but it would diminish the desire to trade and to shift trade to other countries. Therefore, the measures of incentives and promotions for trading commodities, in fact, are relatively expedient in the efforts to increase trade relations between both sides of the countries.

TRADE POLICY AND TRADE EXPANSION

Trade Policy: Mechanism and Efforts for Trade Expansion

In the last few years the government of Indonesia has formulated a series of trade policies by adjusting and revising the policies validated during the previous years. In April 1976, for example the government has adopted a series in the "package of April 1976" by revising the "package of April 1970." Then in January 1978 the policy was adjusted and revised again with the new trade policy known as the "package of January 1978," and soon thereafter it was followed by "the trade policy of November 15, 1978" which is popularly known as "KENOP Policy" of which the major content is that the government of Indonesia devaluated the Indonesian Rupiah currency with the rate of exchange falling from Rp. 415.00 to Rp. 625.00 per US dollar, which is a managed floating rate of exchange. And recently that is, since January 1982, the Indonesian government has taken a new policy in trade in the form of efforts mainly to encourage and promote export other than petroleum and natural gas, besides controlling the efforts in the sector of import and foreign exchange transfer more intensively.

The Indonesian government policy in foreign trade is mainly aimed at benefitting the sector of foreign trade to strengthen and support national economic development. In line with this, as the main characteristic of the foreign trade and balance of payment, it includes continuous efforts to encourage and promote exports from which the result in the form of foreign exchange is used for economic activities and national development. The policy mentioned is also aimed at extending and promoting work opportunities, directing import to fields according to priority, maintaining the stability of Rupiah exchange value, and benefitting all efforts and services abroad.

In the sector of export the steps to be taken includes the efforts related to distribution of tax facilities, simplification of export procedures, promotion of the merchandise's quality standard, and distribution of other facilities such as export credit, market extension, and promotion of cooperation with other countries.

In the sector of imports, the government has taken the policy of making efforts to accelerate the preparation of merchandise needed, either for production activities or to meet social demands. In relation to this some measures have been made such as the extension of the relief of import duty for raw and supplementary materials used for domestic production, the expansion of the

kinds of goods acceptable for import with irrevocable letter of credit, and the opportunity given to the banks of foreign exchange to determine freely the amount of import guarantee for certain goods. In its relation to supporting export efforts, even since January 1982, exporters of goods and services have been given the opportunity to use the foreign exchange from the result of their export, for importing raw materials, capital goods, etc. Besides carrying out this new policy, a stipulation is made on the purchase of government imports and its relationship with certain export commodities supplied by Indonesian exports, in the form of various commodities of agricultural industry and other commodities excluding petroleum and natural gas.

For the purpose of trading with the Socialist countries particularly Eastern Europe, additional policies are made separately. The government of Indonesia regards the trade pattern with Socialist countries of Eastern Europe as having different characteristics when compared with that of Indonesia with countries outside Eastern Europe. Therefore, for the purpose of promoting trade, particularly in marketing export commodities with the Socialist countries of Eastern Europe, as of June 1979 new stipulations and patterns of trade have been made separately, besides the general stipulations still in force on export and import trade.

The trade with the Socialist countries of Eastern Europe is conducted by export and/or import enterprises which are recognized as registered traders by the Department of Trade and Cooperatives. In order to be recognized (approved) the company should fulfill the requirement of making an effort of trading with Socialist countries of Eastern Europe during the last two years and other requirements which are further determined by the Department of Trade and Cooperatives.

It is also determined that the state enterprise Panca Niaga Limited is appointed either in its domestic activities to coordinate the registered traders, or in its efforts to contact purchasers from the Socialist countries of Eastern Europe and to contact business firms or institutions needed. The chairman of the registered traders group *holds the liaison function* which is assigned to present considerations and suggestions on behalf of the registered members of traders to the Department of Trade and Cooperatives concerning the problems of policy in an effort to promote trade with the Socialist countries of Eastern Europe.

As the result of the efforts and the realization of the policy as stated above, it seems that there has not yet been achieved the outcome in the form of export as well as import expansion as great as that as desired by the Socialist countries. It seems that the realization of this policy needs more intensifying and it

is possible that it needs other measures and efforts which support the policy of extending the trade to those Socialist countries more intensively.

Trade Agreements and Payment Arrangements

The Indonesian economic system is greatly different from the system found in the Socialist countries, especially Eastern Europe. Moreover, the economic system within those Socialist countries also varies one from another in its implementation, concerning the degree of political and economic control ranging from tight centralization to decentralization or extensive autonomy. Therefore, things like political influence and the optimal combination between political consideration and rational economic principles should be taken into account and formulated with care.

Differences in political as well as economic system, and the severing of the economic and trade relations some time after the failure of the communist coup d'état in Indonesia, has brought about a distortion of communication with the Socialist countries. As a result, in an effort to establish further relations, frequently misunderstandings and misinterpretations occurred on the capacity and willingness as well as ability of the two parties concerned. Consequently the things mentioned earlier are the main factors which have become an obstacle to promoting the economic and trade relations between Indonesia and the Socialist countries.

In relation to what is discussed above, if relations with other countries are still in accordance with the old trade agreements, and in fact without any particular trade agreement as its foundation, the government of Indonesia thinks it is necessary that the bilateral relation with the Socialist countries should be based on the existence of trade agreements. Furthermore, the old trade agreements which were signed before the abortive communist coup d'état, basically, should be replaced by new trade agreements.

As stated earlier, the trade agreement between the government of Indonesia and the governments of the Socialist countries is based on a bilateral relationship covering various things, which include: shipping for trade, some points and regulations for trade, export promotion through trade fairs, possible trade disputes, etc. Everything is arranged in the form of guidelines or stipulations which can be furnished by aide-memoire and negotiation contracts by business firms involved in trade.

The trade agreement dealing with export and import with Socialist countries, in general, also mentions the agreement on payments in which it is said

that all payments due to the trade between the countries involved should be made in the currency which can be exchanged freely. Though the trade between the two parties can be arranged with payment in credit, for example, imports from certain Socialist countries of Eastern Europe are provided with direct credit to its trading partner in Indonesia, but the payment is still valued according to convertible currency. Moreover, it is also required without any guarantee from the government or the Bank of Indonesia. The arrangement of trade credit for import and export, other procedures of trade payment and the trade business concerned should also be adjusted to the regulations in force in the respective countries.

By having the arrangement and regulation in trade agreement stated first, it is hoped that mutual understanding and the same interpretation about those regulations could be created so that possible conflict and dispute in trade can be avoided or eliminated. By doing so, it is hoped that economic and trade relations between countries which get involved in trading could be promoted, and in line with this an effort might also be made toward the extension and promotion of the quality and value of goods traded.

As to matters related to economic and trade relations with the People's Republic of China, since the freezing of trade relations in 1967 to date the government of Indonesia has decided that it is not yet necessary to open a direct trading relation again on the basis of a trade agreement. This is, among others, due to the fact that diplomatic relations between Indonesia and the People's Republic of China have not yet reopened, and the trade aspect is not merely the act of selling and buying, but it also includes many aspects such as transportation, banking, insurance, trade techniques, etc. These problems are viewed by the Indonesian government as something which can influence the aspect of security, politics and psychology. That is why indirect trade relations mainly via Hong Kong and Singapore as have been carried out up to now, will be maintained for some time in the future.

Nevertheless, the indirect trade relations between Indonesia and the People's Republic of China mentioned above seem to be more beneficial to China economically. The trade balance of Indonesia with China always suffers a deficit in the same or almost the same amount as the import value from China, because the amount of exports to China is zero or can be ignored.

Related to what is discussed above, it is reasonable that with or without diplomatic ties, within a short time direct trade relations with the People's Republic of China might be reopened. Political obstacles and psychological

affairs as well as possibilities of distortion in security and social order are arranged in accordance with the bilateral relations between the two countries. In addition, the people of Indonesia has been alert and careful in their attitude toward the latent ideology of communism which is incompatible with the philosophical basis of the Republic of Indonesia, "Pancasila."

Multilateral Trade and Commodity Agreements

In connection with the problems of production, consumption, and marketing of various export commodities, Indonesia participates in various international commodity agreements and multilateral trade concerns. The most important ones are the Indonesian participation in the Organization of Petroleum Exporting Countries (OPEC), Association of National Rubber Producing Countries (ANRPC), International Council of Copper Exporting Countries (CIPEC), International Coffee Agreement through International Coffee Organization (ICO), International Tea Agreement through International Tea Promotion Association (ITPA), International Tin Agreement through International Tin Council (ITC), International Cocoa Agreement through International Cocoa Council (ICC), etc.

By and large, the reorganizations and agreements are aimed at avoiding a surplus by maintaining a balance between supply and demand, limiting or eliminating price fluctuations so as to achieve reasonable price stability, maintaining and extending the world market of the commodities concerned, etc. To achieve this aim, the organizations and agreements of the commodities concerned arrange the market supply with an export quota system, the international buffer stock in certain floor and ceiling price. Moreover, their activities are not only concerned with the interest of exporting producer countries but also attracts the involvement of importing consumer countries as well.

By doing so, the interest of the two parties concerned, both the exporting producer countries and the importing consumer countries, can be clearly seen in certain commodity agreements, which can also be called multilateral trade agreements. All of these can be seen clearly in the International Tin Agreements, International Cocoa Agreements, International Wheat Agreements, etc. Consultations are needed between the group members of the exporting producer countries on the one hand and the importing consumer countries on the other to achieve agreements concerning some problems, such as the problems of commodity quota traded in every country importing or exporting it, and the margin of the highest price or the lowest one of the commodities traded, etc.

It is only some of the Socialist countries trading with Indonesia which take part in some of the commodity agreements or multilateral trade mentioned above. This can be seen in the International Tin Agreements in which Soviet Russia, Poland, Romania, East Germany act as importing partner countries, and in the International Cocoa Agreements in which Soviet Russia, Romania, Hungary and Bulgaria are importing countries. Through the aforesaid commodity agreements, the export quota for the commodities intended for Indonesia can be decided, so that export volume stability and commodity price stability can be reached. Nevertheless it is impossible to raise the export volume to a level which is higher than the quota and ceiling price. This means that the efforts in bilateral relations for the purpose of extending trade bears no meaning at all.

- In commodity agreements in which some of the Socialist countries do not participate or are not arranged according to import quota multilaterally, Indonesia might extend its bilateral trade relations in trading the commodities concerned. If so, this can be applied to the export of coffee, white pepper, natural rubber, tobacco, copper, etc. The non-quota countries in trading those commodities, including the socialist countries, could enable Indonesia to extend its exports and international trade. But one noteworthy remark is that the problems here are difficulties in extending the market because of keen competition from other producing countries. One of the solutions is to search for some measures and efforts bilaterally.

Diversion and Shifting of Trade

It is difficult to analyze the diversion of the Indonesian trade with the Socialist countries to other countries, among other things because trade with Socialist countries, was increasing year by year, but its share tended to decrease. Above all, relevant data available is limited. Nevertheless, in relation to this problem, the diversion of role and share of the Socialist countries functioning as Indonesian partners in trade can be explained. In general, during the last decade Indonesia's exports to Socialist countries tended to retain the same share or decrease a little bit compared with the previous situation. It is also true as regards Indonesian imports from the Socialist countries, which tended to decrease in share compared to imports as a whole. This description can be clearly seen in Table 7.

It can be seen from Table 7 that there exist shifts in trading role as reflected in its percentage share of the total value of export and import on the market price. As viewed from the export sector, the share of trade with Japan, USA,

Table 7

SHIFTING IN INDONESIAN TRADING PARTNERS, 1971-1980
(percent share of the total value)

	1971	1974	1977	1980
<i>Exports to:</i>				
1. Japan	44.6	53.4	40.2	49.3
2. USA	15.6	21.3	27.7	19.6
3. EEC	14.5	5.3	8.5	6.3
4. ASEAN	16.7	8.6	10.6	12.6
5. Socialist Countries	1.0	0.5	0.5	0.6
6. Others	7.6	10.9	12.6	11.6
<i>Imports from:</i>				
1. Japan	32.8	29.4	27.1	31.5
2. USA	15.8	15.9	12.5	13.0
3. EEC	21.4	19.3	20.8	13.3
4. ASEAN	7.8	9.4	14.3	12.5
5. Socialist Countries	4.2	4.9	3.0	2.5
6. Others	4.1	21.1	22.3	27.2

Source: Calculated from the Central Bureau of Statistics, *loc. cit.*

and others has increased during the last decade, whereas the share of trade with EEC, ASEAN and the Socialist countries has decreased. This happened because these latter countries tended to increase their import value during the last decade, but the annual growth rate of Indonesian exports to EEC (25.6 percent), ASEAN (33.3 percent), and other Socialist countries (30.8 percent), was obviously relatively low as compared with the average growth rate of the total export of Indonesia which was 37.7 percent.

Conversely, the average growth rate of other countries was relatively high, i.e., Japan (39.20 percent), USA (41.2 percent), and other countries totaled 44.7 percent. Because of that, it was clear that there was a slight shift in the trading role of Indonesia's export from EEC, ASEAN and the Socialist countries to Japan, USA and others.

Furthermore, as viewed from the sector of imports, it was only the share of trading with ASEAN and others which increased whereas the import share from Japan decreased a little bit. Likewise, the import share from USA, EEC and the Socialist countries tended to decrease during this last decade. This situation occurred because the annual growth rate from the import sector of USA (26.0 percent), EEC (22.37 percent), the Socialist countries (21.4

percent), was lower than the average growth rate of the Indonesian import which stood at 28.9 percent. On the other hand, the annual growth rate of ASEAN and others was relatively high, that is: ASEAN 35.7 percent and others 35.1 percent. As a result, there was a slight shift in the trading role of the Indonesian import from USA, EEC and Socialist countries to ASEAN and other countries.

It can be concluded here that actually efforts and policies have been made to promote the trade relation between Indonesia and the Socialist countries, but it seems to remain small and even tends to have decreased a little bit. To reduce the dependency on large trading relations with Western countries and their associates and to make use of the trading potential of the Socialist countries which is big enough, efforts and policies to promote trading relation with the Socialist countries, need to be improved and intensified in the future.

Shipping and Transshipment of Trading Commodities

The government of Indonesia has made a certain policy in which the transportation of export commodities is primarily given to Indonesian shipping companies. If the Indonesian shipping company cannot provide the ship needed in time with competitive and reasonable transport rates, the exporter has an opportunity to register all or part of the ship sailing under a foreign flag by means of the Indonesian shipping company. To make the export shipping activities from the loading port in Indonesia run smoothly, the local port authority can issue a shipping license certificate for national shipping companies and the ship under a foreign flag is chartered by the national shipping company by reporting immediately to the Department of Transportation. Likewise, the certificate of the general agency for shipping with foreign flags chartered by the national shipping company can be issued by the local port administrator after receiving approval from the Department of Transportation.

The export load to the country or port of destination with direct and regular shipping lines with Indonesia is not allowed to be performed by means of transshipment through a third party country. Whereas the shipping load to the port of destination with no regular and direct shipping lines with Indonesia can be performed by means of transshipment through a third country using national shipping company services. For the transshipping of the load concerned, a competitive and reasonable direct consignment rate is applied.

Regulations on the shipment and transshipment of the trading commodities concerned can be applied in general, either on trading transportation with the countries of developed market economies or on the Socialist and developing

countries. Aside from that, the problems of shipping and transshipping to the Socialist countries is relatively difficult. Many of the aforementioned Socialist countries such as Czechoslovakia, Hungary and Bulgaria have no ports or sea routes (land locked), so that the consignment of the commodities between the two parties should be performed by transshipment. This will result in relatively high and unprofitable commodity costs in facing competition from commodities imported from other countries. This problem is more complicated because there are no regular direct lines between Indonesia and the Socialist countries, particularly Eastern Europe, and this situation occurs, among other things, because it lacks the efficiency of the shipping lines and the amount of commodities transported in time.

In addition, certain shipping companies, such as the ones from Soviet Russia and Romania which are capable of serving the transportation with relatively cheap charges is frequently prevented from visiting or stopping in Indonesian ports, because the exporting port facilities are limited and Indonesia is committed to the shipping conference which regulates, among others, the aspect of transportation rate, the shipping route regulation, etc.

In relation to things mentioned above, it is necessary to find a way towards the solution of the problems mentioned before. The way out suggested, among others, is to promote the capacity as well as facility of the trading ports in Indonesia, and to make a bilateral approach to the Socialist countries concerned to improve the regulations based on mutual profit between the trading partners of the two parties. Besides, it is also necessary to boost efforts of multilateral cooperation between Indonesia, the Socialist countries and the DME countries and to hold a shipping conference on dispensation and facilities of shipping arrangements of the countries concerned.

Other Specified Aspects and Obstacles to Trade

Besides the aspects and problems stated above, there are various other aspects which are considered problems and obstacles in trade, either in the sector of exports or imports.

Firstly, the two parties involved in trade hold discordant views concerning the operational way of trading. Principally, this problem can be solved by arranging and issuing guidelines for the trade enterprise concerned to conduct its activities. In addition, it can also be supported by determining the approved and selective trading system for Indonesia, for example, a group of trading businesses which is limited in its number should be given assignments, particularly in organizing and extending trade with Socialist countries.

Secondly, there is not any activity yet to build and extend direct relations and communication between businessmen and traders from the two parties involved. To overcome this problem some things should be done such as installing a trade promotion centre from the country involved, mutual exchange and visits from trader delegations of the two parties, mutual participation in trade fairs held for this purpose.

Thirdly, the quality standard of commodity requirements needed is frequently difficult to reach, and it also happened that there is no such standard of quality of the commodity. In this case, the problem should be overcome by making an effort in the field of quality control, as well as exchanging better information between the two parties involved in the trade.

Fourthly, there is a pressure from the part of the Socialist countries on the Indonesian exporter, who is urged to buy their commodities as compensation in order to balance the proportion of trade whenever he gains a surplus in the export activities. It is necessary that the two trading parties pay attention to this problem and everything can be arranged in such a way as to mutually benefit both parties.

Fifthly, the intensity of compensation in trading commodities in the two-party market is caused by: (a) the commodities from Socialist countries, which are not fully recognized by Indonesia, or the other way round; (b) terms and conditions from the two parties are relatively less profitable as compared with those from other countries, particularly from DME; (c) preferences of the Indonesian consumer is rather negative because of psychological and political factors and the bad image of the commodities from the Socialist countries, particularly Eastern Europe. The narrowness of the market in the country of the trading partner will result in a deficit in the trade balance and this situation will bring about a tendency of making efforts to balance the trading conducted by reducing the number of imports and by forcing exports. Certainly, this condition will inflict a loss upon the two parties and it will not be conducive to trade. In this case, among others, it is necessary to create mutual understanding on both sides so as to equilibrate the trading balance, and to give incentives for trading commodities, and to intensify sales promotion.

Sixthly, it is still difficult to get visas for businessmen and traders from certain Socialist countries to visit Indonesia for the purpose of business, trading, and promotion, so that it is really difficult for them to improve their position and their competitive capacity in this country. In line with this problem, it is necessary to make a general institution in the Embassy of the Republic of Indonesia and the Socialist countries on the right to issue visas of

short visits, for example, for two weeks as is ever done by the Indonesian Embassy in Bucharest, and Prague. This must be selective, that is, on the condition that what is really done is to promote trading relations and is considered profitable for the development of Indonesia.

Trade Fairs and Other Information Exchanges

In order to promote trade and economic relations with the Socialist countries, Indonesia participated in many international trade fairs abroad. On the other side, there were many of the foreign countries that also joined the trade and industry fairs held in Indonesia, especially in Jakarta.

The international trade fairs, attended by the Indonesian trade mission, were coordinated by "Lembaga Pengembangan Ekspor Nasional" or LPEN (the National Agency for Export Development). Many supports and facilities were offered to exporters, such as the facility for stand space, delivery sample, handling costs, promotion costs, and other financial support.

As to the Socialist countries, in the last few years Indonesian trade missions took part in several international trade fairs held in the Socialist countries, such as in USSR (Moskow, 1978), Bulgaria (Provid, 1979), Romania (Bucharest, 1980), and others. Likewise, "Pekan Raya Jakarta" is held every year in connection with the anniversary of Jakarta city, where also many enterprises of the Socialist countries take part and participate in those fairs to introduce and promote the commodities produced in their countries.

The measures and efforts to carry out trade fairs, sending the trade missions, establishing trade promotion centres, and other efforts of promotion to exchange information among nations especially with the Socialist countries, in order to promote and develop trade relations, needs to be intensified in the future. Thus, it is hoped that the world trade would be more developed for the mutual benefit of the countries concerned. Besides, it is also hoped that the world economic recession, inflation and unemployment experienced by most countries in the world could be controlled, so that the world economy would develop better than before.

CONCLUSIONS

After the communist abortive coup in 1965 the relations between Indonesia and the Socialist countries has been harmed, and consequently unfavourable

situations to both parties has been brought about. To improve relations and cooperation, in 1968, 1974 and 1975, bilateral trade agreements with the Socialist countries of Eastern Europe were renewed and have been maintained till now. While with regard to the PRC, after closing relations officially, in 1967, no new agreement has been negotiated as to the Socialist Republic of Vietnam, relations have been kept up with the country, and have been continuing ever since. To improve the Indonesian position and relations with the PRC, by eliminating all possible obstacles, perhaps it is time to normalize relations with PRC, at least with respect to direct trade relations.

The trade with the Socialist countries as a bloc, including indirect trade with the PRC, has increased in absolute value but its share tended to decrease during the last decade. Nevertheless, the trade balance has been always negative for Indonesia. In order to strengthen the Indonesian position and reduce the great dependence on the DME countries and their associates, and maintain the trade equilibrium with the Socialist countries, it is necessary to intensify trade and economic relations with the Socialist countries.

The terms of trade with the Socialist countries indicated that both the net barter or the income, tended to increase during the last decade, in favour of Indonesia. From 1971 to 1974 the trade was continuously increasing, but from 1974 to 1975 it dropped keenly. Afterwards in the next successive years it continuously increased again until the year 1980. This means that the ability and capacity to exchange in trading was inclined to increase and was relatively in favour of Indonesia. This trend must be maintained continuously, at least as much as in the past.

From the point of view of trading commodities between Indonesia and the Socialist countries, it was obvious that Indonesia's export commodities were limited and kinds were very few. On the contrary, the kinds of import commodities were many and various. Looked at the grouping by SITC Section, the largest of Indonesia's exports was crude materials, then followed successively by manufactured goods, food and livestock animals. The main Indonesian import was food and livestock animals, followed successively by chemicals, manufactured goods, and machinery plus transport equipments. It can be estimated that the prospect and development of the kinds of commodities to be exported and imported will be about the same as before or will not change much in the near future. Therefore, besides efforts to diversify exports, it is necessary to take some measures which will facilitate the expansion of those commodities.

Looking at the growth during last decade, it is evident that the Indonesian trade share with the Socialist countries was decreasing relatively and shifting to some other countries. From the Indonesian export point of view, it turned out

that the shifting of export trade with the Socialist countries together with those of the EEC and ASEAN, were decreasing relatively and shifting to that with Japan, USA and other countries. From the Indonesian point of view, it can also be noted that the imports from the Socialist countries together with those from the EEC and USA were decreasing relatively and shifting to the trade with ASEAN and other countries. Those unfavourable conditions and imbalances of trade would certainly weaken Indonesia's position and increase the dependence on some countries only. This needed to be changed, through some measures and efforts, to strengthen and develop trade with the Socialist countries.

In order to increase trade relations with the Socialist countries, aside from the existing general trade policy and measure, a special trade measure has been conducted. This has been included in a decree of Department of Trade and Cooperatives that has been in effect since June 1979. It was decided, among other things, that trade relations could be carried out by licensed trade enterprises, besides some other terms, and as the liaison and coordinator there was appointed the government enterprise Panca Niaga Limited. Furthermore, there are also other decisions with regard to the expansion of the trade relations. These policies and measures are good enough, but they do not ameliorate conditions. Therefore, the implementation of those measures still needs to be intensified and put into effect in the future. Improvement of those policies and measures may still be needed, and for this purpose it is necessary to conduct further bilateral research, approach and consultation with the Socialist countries.

The participation of Indonesia in some commodity agreements and related multilateral trade means that cooperative efforts to arrange market supply and trade relations are possible. These will be carried out, among other things, by using measures such as export quotas, international buffer stocks, and price stabilization with floor and ceiling prices, and will be useful for the related countries. Furthermore, they will diminish cutthroat competition among the members. So that, as to the Socialist countries by becoming members of the commodity agreements they will be able to run and develop the same things. Nevertheless, for the Socialist countries which do not participate in the trade agreements and multilateral relations concerning those related commodities, Indonesia's export quota will not be arranged. In this context, for the non-quota countries some bilateral measures and efforts to expand trade relations can be applied.

In the case of shipping and transshipment, Indonesia has experienced difficulties in trading with the Socialist countries. Generally, there have been no direct regular lines between these countries, so that many of shipping goods are transported through third countries. Because of the relatively high cost and

inefficiency those shippings have resulted in inflicting losses on both sides. On the other hand, regular liner services to the ports of Indonesia are relatively less interesting for the shipping companies of the Socialist countries. This is because of the insufficiency of port facilities, Indonesia's commitment to the shipping conferences, etc. All of these problems would be solved together through negotiations, measures and efforts for improving the conditions, and by carrying out multilateral cooperation with the other countries via shipping conferences on giving dispensation in the related shipping business.

Another main obstacle in trade activities with the Socialist countries were the discordances in trade operations and the lack of direct relations between trading partner enterprises of both sides. Besides, there were also difficulties because quality terms and trading goods conditions were less suitable to buyers, and commodities traded were unfamiliar to the markets of both parties. These problems and obstacles need to be solved by greater participation in trade fairs, sending trade missions, establishing trade promotion centres in possible trade centre cities of trade partner countries. And there is also a possibility to establish a special division of trade development board aiming to manage the expansion of trade for both sides of the trading countries.

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Economic Relations between the EEC and ASEAN

Ulrich CARTELLIERI

INTRODUCTION

Relations between the EEC and ASEAN are not free of sensitivities. Particularly in the field of economic relations, a number of issues exist, which make relations between the two groups a sometimes sensitive matter. But, I think it is fair to say that there are certainly more convergences than divergences between the two sides. Still, there are conflicts of opinions. Exploring their background and causes may help us to overcome them. By improving mutual understanding, we can avoid wrong and sometimes excessive expectations and subsequent disappointments -- disappointments which may lead to readjustment of goals and directions, even somewhat emotional ones -- I may just mention the distinct redirection of a country's focus towards the East, i.e. towards all-embracing co-operation with Japan, and to a lesser extent with Korea, that the Malaysian Prime Minister Mahathir has publicly been promoting out of apparent disappointment over what are considered to be shortcomings of the Europeans in meeting Malaysia's expectations in the field of economic co-operation.

Thus the outline of this article is as follows:

- the scope and framework of the economic relations between the EEC and ASEAN;
- the relations in perspective, i.e. their relative position and importance for each of the two groups, and some problem areas;
- some thoughts on the future development and potential of these relations.

Paper presented by Dr. Ulrich Cartellieri at the Indonesia-German Conference, Bali, July 5-7, 1982 sponsored by CSIS (Jakarta) and Institute fuer Asienkunde (Hamburg). Dr. Ulrich Cartellieri is a member of the Board of Managing Directors of Deutsche Bank, Duesseldorf.

SCOPE AND FRAMEWORK OF THE ECONOMIC RELATIONS

On the trade side, total foreign trade between the EEC and ASEAN has increased from US\$ 4.2 billion in 1973 to over US\$ 17 billion in 1980, i.e. more than four-fold. During this period, ASEAN exports to Europe grew continuously faster than European exports to ASEAN, so that the European trade deficit with ASEAN widened from just US\$ 115 million in 1973 to US\$ 2.2 billion in 1980 -- in other words the European trade deficit with ASEAN has increased nearly twenty times over just eight years.

Taking a purely quantitative approach, one can say that the trade volume indicated by these figures are relatively small, but that they show an obvious growth potential, particularly for ASEAN exports. For comparison: total foreign trade in the world grew from US\$ 1,061 billion in 1973 to US\$ 3,744 billion in 1980 - an increase of 3.5 times.

On the other hand, total foreign trade of the EEC grew from US\$ 326 billion in 1973 to US\$ 1,404 billion in 1980 - an increase of 4.3 times, which indicates that trade between ASEAN and the EEC has, on the whole been rather stagnating compared with the development of the European Community's total foreign trade.

Indeed, from 1973 to 1980 the EEC shares of both ASEAN exports and ASEAN imports declined from 15.7 to 14.1 percent and from 16.5 to 13.7 percent respectively. In the European Community's total foreign trade, ASEAN's share was 2.4 percent in 1980 (2 percent in 1973). At the same time, the Community's trade e.g. with Latin America was, with a portion of 5.3 percent of the total, more than twice as high.

On the other hand, from ASEAN's point of view, the trade volume with the EEC represents about 14 percent of ASEAN's total foreign trade. While this is much less than ASEAN's trade with Japan (about 25 percent of the total) and also less than ASEAN's trade with the United States (about 18 percent), it is still a very substantial portion of ASEAN's total foreign trade and essentially of a similar and comparable magnitude and importance as ASEAN's trade with its two other big trading partners.

From the ASEAN point of view, this importance also applies - if to a lesser extent - to European direct investment, which according to gross estimates had reached a volume of about US\$ 2 billion in 1980. This figure presents an estimated share of 14 percent of the total foreign direct investment in the ASEAN countries. Again, the European investment is smaller than the Japanese and United States direct investments in the region, which are

estimated to account for around 32 percent and 16 percent of total foreign direct investment in the ASEAN countries. And, one can add, it is quite obvious that Japanese direct investment shows a much greater momentum in the region. While there are of course many logical explanations for this development, it is -- again for obvious reasons -- a matter of concern for the ASEAN countries as well as for their other major trading partners.

RELATIVE POSITION AND IMPORTANCE OF THE GROUPS

The EEC for its part recognizes this situation and has declared its concern and its willingness to improve the -- in the view of both sides -- somewhat underrepresented and to some extent even relatively declining European economic position in South East Asia. This has been welcomed by the ASEAN countries, where a feeling appears to exist at least in some countries that they may have been overly subjected to an ever-growing Japanese economic preponderance in South East Asia.

Beyond this immediate concern, both sides see manifold benefits in closer co-operation, in a blending of South East Asian resources with European technology and know-how and, beyond, in the stabilizing geo-political effect that such a co-operation between these two regional groupings could have.

Under the umbrella of these converging interests, the stage would appear to be well set for a strong upswing especially in the field of economic co-operation. However, a closer look shows that a few stumbling blocks exist, which form rather arduous barriers on the way to closer economic cooperation.

First to be mentioned here is the EEC protectionism, particularly in the field of textile imports, but also with regard to agricultural products like tapioca imports, especially from Thailand, or EEC sugar subsidies which are hurting Philippine sugar sales on the world market. On the other side, the efforts of certain South East Asian countries to form some sort of producers' cartels for commodities like tin or rubber, have also tended to create some irritations.

In assessing these problem areas and the very different approach that the EEC and the ASEAN countries take towards them, a brief look at the different nature and role of these two regional groupings may be helpful.

The European Common Market has developed over the last 25 years since the Treaty of Rome from a concept which -- based on an external threat to

Western Europe -- considered economic co-operation as the most pragmatic way to accomplish the goal of a gradual integration of the free Western European nations in a united Europe.

Hence, the fact that today about 50 percent of the total foreign trade of the EEC represents internal common market trade, (compared with only 15 percent in ASEAN) is considered as an accomplishment by the members of the Common Market (perhaps with the notable exception of the late-comer member Great Britain) - and, one might add, outside criticism of this high proportion of intra-Community trade meets with little understanding inside the Common Market.

I would like to emphasize already at this point, that this factual statement should not, however, be understood as an attempt to placate critics of EEC protectionism - which is, to some extent, certainly the other side of the coin of this growing economic integration that has been accomplished in Western Europe. Quite to the contrary, critics of EEC protectionism are vociferous and articulate in Western Europe, and we Germans have been known to be its strongest critics within the Community. I shall revert to this subject.

In short, the European Community is a group of nations, which for many reasons, not the least those of economic substance, focus very much on economic intra-group relations. Without dwelling further on the otherwise interesting history of the development of the external relations of the EEC, it seems, in the context of the subject here, that the EEC was apparently slow in recognizing that apart from the United States, Japan, Latin America and the associated countries of former colonial territories in Africa, there was a new grouping of independent nations in South East Asia that deserved attention as a potential partner for economic co-operation.

On the other side we have the Association of South East Asian Nations which was founded in 1967, with the more limited goal of a co-operation between independent nations who were not thinking in terms of future integration, handing over of sovereign rights to joint executive bodies, or common market concepts as far reaching, ambitious and consequential as in Europe. But, be it in spite or because of its more limited ambitions, ASEAN has gained visible momentum as a group from the mid-1970s onwards and has over the past few years become a recognized factor in the world. It has also become a negotiating partner for the EEC, despite the fact that its 5 member nations maintain full sovereignty over their external trade relations.

The reason is no doubt the growing cohesion between the five member countries which has allowed them to speak with one voice to the EEC - not-

withstanding that certain problem areas have required a more bilateral approach, e.g. the question of European tapioca imports from Thailand. (On the other hand, the European side, too, finds itself exposed to some specific problems with individual ASEAN countries - I may just mention the new Indonesian shipping policy, a most recent example of foreign flag discrimination.)

Fully aware of the danger of misunderstandings implied in simplifications, I would nevertheless suggest that the basic differences in background, history and self-understanding of both groupings go a long way to explain their different approach towards each other and their different expectations from the other side.

In Europe, a group of nations that established strong joint organizations and institutions with the will to integrate their national economies on the basis of a joint political confession; in South East Asia a grouping of newly independent nations who have no intention of allowing limits to be set to their independence beyond those induced by political, economic and cultural co-operation in the spirit of good neighbourliness.

Significantly, first contacts on economic relations between the two groups were triggered by the concern of some ASEAN nations after the United Kingdom had joined the Common Market, that they might lose their Commonwealth preferences and thus had to expect damage to their well-established trade relations. Without giving a full account here of the development of economic relations between the two groups - from the installation of the Special Co-ordinating Committee of ASEAN Nations (SCCAN) and the ASEAN-Brussels Committee (ABC) in 1972, to the conclusion and signing of the co-operation agreement between the two groups in Kuala Lumpur in 1980 - it can be said that these relations have gradually been intensified over the years and have been marked by a lot of good will and mutual interest on both sides, but apparently also by some dissappointments particularly in the most recent past on the part of the ASEAN's countries.

PROTECTIONISM

This brings me back to the afore-mentioned problems of European protectionism in the field of foreign trade, and to the South East Asian expectations of European direct investment - and that means specifically European technology and know-how transfer for the local development and employ of resources in South East Asia. Both complexes stand against the background, on the one hand, of the co-operation agreement of 1980 that provides for in-

tensified co-operation in the field of foreign trade (reduction and abolition of trade barriers, improved access to markets) and economic co-operation in the field of industrial and technological developments between businesses of both regions, on the other hand, against the background of the already mentioned relative decline or at least stagnation of the European share in economic development in South East Asia.

First, a look at EEC protectionism - beginning with a remark from a German observer's point of view that Germany being the second largest trading nation in the world, we know especially well about the necessities and benefits of free trade in the world - and we are its strongest advocate within the EEC, where not all of our European partners share our conviction to quite the same degree. Let me nevertheless try to give a "European" picture of the situation.

In the foreign trade sector, the steadily growing surplus of ASEAN in its trade with the EEC even during a period of declining demand in Europe - and the favourable development of ASEAN's export structure (the share of finished industrial products has climbed from 20 to 40 percent as was recently pointed out by Mr. Haferkamp) - make a strange background for complaints about European protectionism - particularly so when compared with the trade deficits that South East Asian countries are running on their trade with Japan - and to a lesser extent also with the United States. This is apparently also being felt at least in some South East Asian quarters, if I may quote from the following editorial:

"While many criticisms have been flung at the EEC, very much less has been said of the United States and Japanese barriers against imports. It all seems so unfair to dismiss the fight against Japanese protectionism as futile because protectionism is a custom of the Japanese and then vehemently hit out at the EEC for not doing enough."

This comment from a Singapore Business Times leader indicates that it is not just the Europeans who feel that in light of the facts the criticism of EEC protectionism against ASEAN exports appears to be somewhat overdone.

Yet, we should not try to pass the blame onto somebody else. Rather we wish to analyze the existing problems and see if and what remedies are available. What then are the roots of the continuous complaints about European protectionism in South East Asia despite the very favourable trade picture enjoyed by South East Asian exporters?

The favourable overall growth and surplus situation of South East Asian exports to Europe somewhat conceals the fact that access to the Common Market is limited for certain South East Asian products that have a key importance for the producer countries. ASEAN countries are especially seeking

better access for products like tapioca, palm oil and plywood under the EEC generalized system of preferences (which allows duty free imports from developing countries within specified limits). Some less prominent items which have been subject to negotiations are e.g., orchids, pepper and pineapples. The favourable trade picture also conceals the extent to which ASEAN countries are affected by European dumping prices in the world markets as a result of EEC agricultural subsidies. Here, many of us feel quite strongly - and we raise this matter at every occasion - that the EEC must change its protectionist attitudes at least to some degree - in the interest of international co-operation, and clearly also in the interest of European export-oriented industries.

But the most widely disputed item is textiles, a key light industry in many developing countries because of its easy-to-establish labour-absorbing capacity. The complex situation, which encompasses global interests for beyond the scope of EEC-ASEAN has drawn wide public attention in South East Asia, and was e.g. well-covered recently by the FEER.

To summarize: Under the Multilateral Fibre Agreement (MFA) concluded in 1973, and renegotiated twice since, the developing countries participating agreed to restrain their exports, in particular exports of so-called sensitive items. The understanding was that this "voluntary restraint" was to give the industrialized countries the time needed to restructure their textile industries. Complaints are now being raised that the EEC - behind the protective wall of the MFA - is just preserving the existing structures of its textile industries. The EEC is being confronted with the demand to come up with a specific plan for the restructuring of its textile industries within fixed time limits.

The EEC, on the other side, has documented in detail the fact that its textile industries are already engaged in a substantial restructuring, modernisation and upgrading process. During a period of almost stagnating textile consumption in Europe (annual increases reached just about 1 percent since 1973), but fast growing imports (the import share of textiles grew from 21 to 44 percent since 1973) the number of European textile and clothing firms went down from nearly 31,000 to below 26,000. During the same period, however, production value increased from about US\$ 20 to about US\$ 26 billion. The European textile industries still employ about 3 million people, but the number of employed people has been reduced by over 25 percent since 1973 (more than 35 percent in the case of Germany, and more than 50 percent in the case of the German garment industry).

Against this background, demands which essentially ask for a commitment from the EEC to dismantle whole sectors of the European textile industry, are bound to run into stiff political opposition - not only from European trade

unions - at a time when a profound recession is already cutting deeply into employment in the textile sector in Europe - a sector that employs about 50 percent female workers for which finding new jobs is particularly difficult because of relocation problems. One has to add, though, that obviously not all EEC member countries have done as much as possible so far with regard to industrial restructuring.

However, it appears that what is hurting South East Asian textile exporters to Europe at the present time is not so much European textile protectionism as the unwillingness of European consumers to buy more textiles than they do. In this situation, a by whatever means further reduced European textiles industry would, surely, provide more jobless people, but hardly more purchasing power for imported textiles.

Perhaps I may add a personal observation: Being responsible in my bank for a domestic banking district where the German textile industry traditionally has been heavily concentrated, I have had ample opportunity to witness the on-going restructuring process in this industry. Quite a number of even internationally renowned firms of long standing have been falling victim to this process, and the economic and social consequences for the predominantly small towns that have been losing their main employers, have been grave. To make matters worse, this structural unemployment is hitting us at a time when not only recessionary unemployment is already at a post-war high, but when we also must strive to create 1.5 million new jobs within the next few years for the school leavers of the strong birth rate Sixties.

While the key role of textile industries for newly industrializing countries cannot be overlooked, I wonder whether the discussion should not perhaps be carried one step further to consider the question whether the right battle is being fought around the renegotiation of the MFA. Even if the demands of the developing countries would be fully met by the EEC with regard to free access for their textile industries to the European Common Market, would not these countries make themselves extremely vulnerable to the economic ups and downs in the advanced countries - much more so than is the case already? With the importing countries no longer engaged in those industries, would not utter neglect then be shown by them towards cyclical employment calamities of labour-intensive textile producers in developing countries, thus creating potential for new tensions? The confrontation that already exists between producer and consumer countries in the commodities sector -- think of tin -- should perhaps give us food for thought when looking at the textile problem.

Moreover, while one may try to resort to buffer stock arrangements in the commodities sector, this would not be possible in the case of textiles or other

manufacturing industries. I wonder, therefore, if not the EEC and ASEAN should try to avoid the traps of industrial monocultures - as long as there is still time to do so - and rather focus on the possibilities and potential of industrial integration - upstream and downstream - between European and ASEAN industrial firms, as a more lasting answer to the question of how to build up industrial capacities with long-term potential. In any case, the dependence of the textile industries of the ASEAN countries on the EEC market, while increasing, should not be allowed to reach a dimension whereby it could seriously infringe on the relationship between the two groups.

POTENTIAL AND POSSIBILITIES

On the investment side, the EEC has demonstrated a strong interest in promoting direct investment of European firms in South East Asia and has gone as far as to participate directly in promotional activities - you will remember the EEC-ASEAN business meetings in 1977 in Brussels and in 1979 in Jakarta. More recently, following the EEC-ASEAN foreign ministers' meeting in Brussels in October 1981, the European Commission again appealed to European industry to increase their investment in the ASEAN countries.

Nevertheless, European direct investment in South East Asia, while increasing in absolute terms, has maintained a much slower pace compared with Japanese and American investments. While exact figures are not available, it seems a justifiable assumption that this is partly due to the fact that EEC investment figures started on a high historical level because of the already established investments of the British and the Dutch in some countries of the region. But even so, Japanese and US investors appear to have grasped investment opportunities in South East Asia much faster than the Europeans. Given particularly Japan's proximity and strong acquaintance with the region and her need for resources, this seems to be quite logical. For European investors, other parts of the world were apparently more attractive in the past.

The reasons are manifold and the most common ones are well known: geographical distance, unfamiliarity with the region, thought by many to be a domain of business from the former colonial powers, comparatively small and splintered markets were perhaps the most frequently mentioned. I think one can say that this is changing, as is demonstrated by the increasing number of European investors in South East Asia. However, there still are a number of reasons which slow down the growth of European investment in South East Asia. A sectoral analysis of individual industries would of course reveal multiple variations. However, there are some common denominators: at the mo-

ment the list is certainly topped by the under-utilisation of existing capacities in other countries - including the home countries - which partly reflects the ongoing painful adjustment process, a situation which offers little incentive to make new foreign investment decisions.

Beyond this, there have been problems in getting a direct investment established in some host countries. In addition to the scarcity of qualified local personnel, cumbersome administrative investment approval processes, corruption problems and grey areas in taxation, profit remittance and other restrictions can cause foreign investors to think that they are not being fully trusted, but rather subjected to what they feel is sometimes a discriminatory control.

Also, the joint venture approach required in many cases, i.e. the necessity to join forces with local partners, is considered as another impediment by many European investors. Not only are suitable local partners sometimes difficult to find, particularly for smaller foreign investors, but especially such smaller companies often prefer to maintain full control over their foreign operations in the same way they run their businesses at home.

In short, the point has been made many times in polls taken among foreign investors, that they are more interested in a long-term stable, predictable and friendly investment climate rather than in special tax or duty privileges and incentives. One might also argue that a more liberal attitude towards foreign investors in general could lead to a faster influx of foreign investment, thereby creating more jobs and adding to the growth of the GNP. In the case of South East Asia, while many specific investment incentives are offered to foreign investors in all ASEAN countries, national economic policies and foreign investors' interests have sometimes been difficult to combine.

Specifically, foreign investment is sought to promote the local processing of indigenous raw materials. And while this may appear as a logical and desirable development, very basic obstacles exist particularly in this field and can frustrate the aims of economic planners. Just to mention a few: existing production capacities as well as traditional trade and distribution channels in the foreign investors' home countries, greater market proximity, vertical and horizontal integration of production processes in the industrialized countries, etc.

In this context, the radical changes, that Indonesia and other ASEAN countries are seeking in the structure of the international timber industry, are an interesting example of what may perhaps be accomplished -- if only over a prolonged period of time -- at least in the field of some more scarce commodities.

Whereas South East Asian economic planners wish to see European investors transferring technology to their countries, particularly for the local employ of human and material resources and the upgrading of local industries, the motivation of industrial investors from advanced countries is often predominantly in other motives: in many cases this is the shifting of labour intensive production towards low cost countries, which of course meets with the interest of the host country. Problems regarding the qualification of the local workforce do exist, however, and should not be underestimated or ignored, because they set limitations particularly on higher technology foreign investment.

Moreover, solely labour cost oriented foreign investment tends to be of a transient nature. Not without reason have the textile and the electronic components industries been called the carpet-baggers of the LDCs.

Another primary motive for foreign investors is of course to gain access to new markets. From the viewpoint of many foreign producers, particularly those in equipment-intensive industries, the size of the individual markets of the five ASEAN countries is still rather limited, and so is the accessibility of neighbouring markets. Here, it may certainly be assumed that initiatives of the ASEAN countries to increase intra-ASEAN trade by reducing internal tariff barriers could prove tremendously beneficial to the attraction of foreign direct investment if respective product categories were to be included. In this context, it may be remembered that, at the time, the creation of the Common Market in Europe was first fully appreciated and understood by American industrial investors, who were quick to take advantage of the new, enlarged market territory, and who made a substantial contribution towards the economic growth of Western Europe at the time.

CONCLUSION

On balance, the existing problems in the foreign direct investment sector should, in my opinion, not be over-emphasized, however. A review of the last ten years shows a remarkable increase in European investment in the ASEAN countries, and given the increased level of mutual understanding and familiarity that has been reached over the years, we can confidently expect further growth of European investment in South East Asia. This will also increasingly be induced by a growing awareness of Europeans that new economic regions are dynamically developing around the Pacific Basin, to some extent shifting gravity centres from the Atlantic to the Pacific region. I would just mention, as a most significant example, the shift in freight volumes which on the Pacific

Ocean now already exceed those shipped on the Atlantic Ocean. It is in the best interest of European business to participate and integrate themselves into this process - thus contributing to minimize global trade frictions and thereby reduce the potential for political tensions.

The development towards such integration and co-operation is already there; it is visible, credible, if sometimes slow --and what it requires most from us is, in my opinion, patience and the consciousness that not intellectually more gratifying grand designs or master plans, but only painstaking attention to the nitty gritty details like customs tariff positions, foreign trade regulations, investment laws-- and open and frank discussion of problems will let us make solid progress.

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Vietnam: Its Economy and the Cambodian Issue

Octavianus Ovy NDOUK

Economic crisis - due to a number of factors - presents a major obstacle to Vietnamese development efforts. As a result, the country is not yet developed and in fact has failed to achieve the progress it should have. The situation is exacerbated by Vietnam having involved itself in the Indochina (Cambodian) conflict so that it has become isolated from the international community, while it must also defend its position in the region. Vietnam has been consistent in this policy even though it has been forced to become dependent on aid from other nations (especially the Soviet Union). Such aid is necessary to ensure the implementation of its development programs as well as the continuation of its role in the Indochina region. However, how long such a situation will continue will be determined by the success of Vietnamese development in the future and developments in the region where the large powers (the Soviet Union and the People's Republic of China) - both directly and indirectly - are playing a role. In the present predicament it would seem difficult for Vietnam to decide whether its development efforts should be given priority, at the expense of the allocation of funds in the field of defence, or whether such development will remain in conflict. This is very difficult to determine since, for Vietnam, both the above matters are equally important and inter-related. This article sets out to analyze the problems Vietnam is faced with which can not be separated from the Indochina conflict.

FOOD SHORTAGES

At the end of the Vietnam War in April 1975 the Vietnamese people were reunited. The process of reunification was preceded by general elections on 25

This article is translated from the Indonesian text published in *Analisa* XI/8, August 1982. Octavianus Ovy Ndouk is a staff member of the Department of International Affairs, CSIS.

April, 1976 to elect members of the National Assembly from throughout Vietnam. The newly created Assembly, the outcome of those elections, met in Hanoi from 24 June - 3 July 1976, and formalized the reunification of Vietnam (North and South) as the Socialist Republic of Vietnam with Hanoi as its capital city.¹ The reunification, it appeared, did not bring peace to the Vietnamese people, because at the same time they entered a new stage of struggle in their country. The war that had gone on for 30 years against the French, the US and South Vietnam, and finally China (February-March, 1979) forced the government and people of Vietnam to rise out of its ruins and rebuild the country anew, in all fields. The Vietnamese government had to overcome the serious problems of food shortages (after the period of war came to an end), unemployment, and underemployment. However, so far, the results of all those efforts undertaken have been far from pleasing and Vietnam still has to face a number of quite difficult problems. Besides having to still fight in Cambodia and prepare against a threat from the PRC on its northern border, Vietnam still faces serious internal problems in improving the standard of living of its people. The Vietnamese Minister for Foreign Affairs, Nguyen Co Thach, described the economic situation in his country as "very bad, but not worse."² Apparently he remains optimistic, especially because statistical data shows that there has been a large increase in production and export of coal (more than half of Vietnamese commodity export is made up of coal). He also hopes that food production can be further increased by upgrading management techniques. And if these goals are reached Vietnam will not need to import grain again in 1982. Food shortages is the most troubling problem for the Vietnamese government. In 1976 grain imports - rice, wheat and flour - amounted to 645,000 tons, and then increased annually (because of a worsening recession in the Vietnamese economy) until in 1980 they reached 924,000 tons. However, by 1981 imports fell to about 300,000 tons.³ Reduced imports was made possible by an improvement in food production. It was announced in 1981 that food production reached a target of 15,000,000 tons. This was 600,000 tons more than the previous year.⁴ The increase in food production evidently brought hope to the government and people of Vietnam that they would be able to overcome the problem of food shortages even while reaching the above target, food production was still inadequate. According to a report by a FAO team which carried out a survey in Vietnam at the end of 1980, the biggest problem confronting Vietnam was food shortages. It was

¹See *Indonesia and the International World 1977* (Jakarta: CSIS, April 1978), pp. 473-74.

²See Michael Morrow, "Ready for a Rebound," *Far Eastern Economic Review*, January 29, 1982, p. 48.

³*Ibid.*

⁴See "Government Report at National Assembly," *Vietnam Courier*, Vol. 18, No. 1, 1982, p. 3.

estimated that between October 1980 and September 1981 Vietnam had a deficit of about 4.4 million tons of rice or similar grains (2 million ton annual deficit with an additional 2.4 million ton deficit as a result of typhoons and tropical storm that swept through Vietnam's principal growing areas in the fall). Famine will continue to plague Vietnam if it does not receive the food aid that is urgently needed.⁵ Yet this fact is overlooked by Western and Asian countries alike, primarily because they have little sympathy for Vietnam as far as its occupation of Cambodia is concerned. And this is why Vietnam must still look to Moscow.

The report also made it known that, as result of natural disasters, the Vietnamese experienced a severe food shortage throughout the country and especially in northern Vietnam. This is why up to 1980 the Vietnamese government tried to control the distribution of food by rationing. The food ration for those reviewing wages, in the north was reduced from 18 kg to 13 kg monthly, which in a number of areas was only made up of 1 kilo of rice and 12 kilos of tapioca, sweet potato and corn. In Southern Vietnamese cities where the population was becoming even more dense, rationing was only available to workers and government employees.⁶ Discrimination in the issuing of food coupons and economic difficulties in general caused dissatisfaction, falling morale and the stream of refugees out of Vietnam. Food rationing like that mentioned above evidently continued in the following year (1981) even though production of food reached the set target. This verifies the estimates of the FAO team mentioned above. According to refugees originating from Hanoi who arrived in Hong Kong at the beginning of October 1981, food rationing ranged from 10-13 kg per month. However, only 30 percent of this was rice, the remainder being made up of sweet potato flour and noodle. It is said that a worker living in Hanoi was entitled to a food coupon, but they still complained because the coupons were often one or two months late. Furthermore, even with a food coupon they had to buy the food themselves and often had difficulties because of the black marketeers who bought (illegally) and resold the food coupons along with the food goods for profit.⁷ Such realities point out how difficult life is for the Vietnamese people, so that is not surprising that many of them decide to leave their country and look for a better life in another country.

⁵ See Nayan Chanda, "A Last-minute Rescue," *Far Eastern Economic Review*, February 27, 1981, p. 28.

⁶ See Nayan Chanda, "Vietnam's Economic Post-mortem," *Far Eastern Economic Review*, January 9, 1981, p. 40.

⁷ See Ton Long, "The Phe Phay's Prcy," *Far Eastern Economic Review*, October 16, 1981, p. 23.

FAILURE OF ECONOMIC DEVELOPMENT

As a country wanting to develop and to increase the prosperity of its people, Vietnam is experiencing difficulties in making any real progress. Since the unification of the country Vietnam can be said to have been in a continual state of war, the stationing of its troops throughout Indochina has also had serious consequences. The fact is, the country has never had a real opportunity to develop its economy. The contradictions it faces are quite serious, because the Vietnamese economy must simultaneously fulfill three very urgent needs i.e. that of national defence, the daily requirements of the population, and building a material basis for socialism, stage by stage. In this kind of situation it is difficult to intensify development. The Vietnamese have to gather all their strength. However, PM Pham Van Dong has admitted that development probably will not go ahead quickly in the near future as a result of the poverty and backwardness of the state economy. This, among other things, is due to the long period of war, sabotage carried out by the US and PRC and frequent natural disasters. Added is the other factor that also obstructed the speed of development which is the lack of experience in economic management.⁸ In other words the Vietnamese Prime Minister recognized the failure of Vietnamese national economic development. In addition, the long-term structural divergences, lack of infrastructures and insufficient capital which are characteristic of the majority of developing countries are also worth mentioning. Moreover, a rigid bureaucracy and poor organization (since 1975) have already had an effect on the Vietnamese economy.⁹ Secretary General of the Vietnamese Communist Party (VCP) Le Duan, (who was recently reelected), admitted in a report delivered at the 5th Party Congress held at the end of March 1982, that shortcomings and errors in the leadership had exacerbated the problems for the Vietnamese economy and society.¹⁰ This is one of the reasons for the failure of the second five year development plan (1976-1980). The achievements of the five year plan did not lessen the serious deficiencies in the national economy. National production is not enough to provide for the needs of the population which is increasing at an annual average rate of 2.6 percent (based on the October 1979 census).

Agriculture occupies a dominant place in the Vietnamese economy. About 80 percent of the entire population works in the area of agriculture, especially that of rice production. For a number of reasons, however, agriculture has

⁸See Sabam Siagian, "Belum Pernah Kami Sekuat Seperti Sekarang," (interview with PM Pham Van Dong), *Sinar Harapan*, 10 November 1981, p. 5.

⁹See Ng Shui Meng, "Vietnam in 1980: The Challenge of Isolation," *Southeast Asia Affairs* 1981, p. 344.

¹⁰See *Suara Karya*, April 2, 1982.

not been able to support the national economy. Apart from natural disasters, the Vietnamese government's efforts to accelerate the socialization process in the South and the rigid policy of collectivization in the North have been contributing factors. In the rich Mekong Delta farmers were often forced to work collectively. As a result, the area of land farmed and planted declined (because of reluctance to farm it) and farmers often sold or slaughtered their livestock to avoid collectivization. They also did not meet their responsibility to pay agricultural taxes and avoided selling rice to the state for a low return. For these reasons, in 1979 the government only collected 40 percent of the targeted food surplus for the South, while in the North farming cooperatives were reluctant to fulfill their obligations to the government.¹¹ This fact indicates that the government policy is less than fully supported, especially amongst the farmers of the South. The Vietnamese government's policy to accelerate the socialization process has evidently been difficult for the population of the South, previously liberalistic due to US influence, to accept. This is also one of the reasons for the flow of boat people (refugees) from Vietnam to neighbouring countries. The move of the Vietnamese government in March 1978 to close down all businesses in the South (many of which were controlled by Chinese or Vietnamese of Chinese descent), resulted in hundreds of thousands of Chinese and Vietnamese Chinese fleeing to neighbouring Asian countries or to China (Approximately 70 percent of them were small entrepreneurs, technicians or civil servants holding office under the former regime). The same drain took place in the North. As a result of the exodus of the Chinese, Vietnam lost skilled labour and technical advisors and industrial production consequently declined. In addition, the Vietnamese government's action was one of the causes of the conflict with the PRC. When Vietnam invaded Cambodia the PRC withdrew all of its skilled labour and technical advisors and ceased all its aid projects there. This made things increasingly difficult for Vietnam.

The war and the uncertain situation under the old regime in the South, caused many of the villagers to leave their homes and head for the cities. The concentration of people in the cities without work being available gave rise to unemployment and other social problems. To overcome these problems, one of the measures taken by the Vietnamese government was to give villagers the opportunity to return to their homes and land they left behind. As well as this the government opened up new farmlands they called New Economic Zones to channel the unemployed from the cities into productive labour. The larger number of those allocated to the New Economic Zones originated in Ho Chi Minh City and other big cities in the South. Between the years 1975 and 1979, approximately 1.3 million were moved to the New Economic Zones. The setting

¹¹ See Nayan Chanda, "Vietnam's Economic Post-mortem," *Far Eastern Economic Review*, January 9, 1981, p. 40.

up of the New Economic Zones in fact was one of the ways the government tried to increase agricultural production. However, this policy lacked support especially among those living in Vietnamese cities of the South who lacked knowledge and experience of farming. Besides inadequate planning, the lack of infrastructure, equipment, seed grain and medicine added to the problems they faced. The failure of the program is one of the reasons Vietnam did not reach its agricultural production targets. Between 1975-1979 food production only went up from 11.6 million tons to 13.8 million tons or just 19 percent. And in 1980 because of losses caused by bad weather, food production did not reach the target (15 million tons), while commodity production did not increase either and was not enough to meet the needs of a continually expanding population.¹²

IMPROVEMENT EFFORTS

The Vietnamese Communist Party Congress IV (at the end of 1976) determined the development plan for the next five years (1976-1980) stressing efforts to redevelop Vietnam by promoting agriculture and its branch industries. However, as the government admitted, the development program failed primarily because the agricultural sector did not reach its target. The Vietnamese leadership who had been enveloped in an atmosphere of optimism evidently hoping for a "leap" in agricultural production, set a target for self-sufficiency in food for the end of 1980 with production of 21 million tons of rice. But when, after three times in succession, the harvest failed because of natural disasters the target was reduced to 15 million tons. As it turned out this target too was never reached. An improvement in the field of food production was only achieved in 1981, when food production reached the target (15 million ton), but this did not mean that Vietnam was free of the cycle of economic hardship, because - as was said in the beginning - everywhere there were still food shortages. An increase in food production was achieved mainly because the government introduced a purchase system which allowed commune members to sell their surplus products on the free market. The system was known as "khoan." Previously, *khoan* had been strongly criticized by the government. However, because the situation was pressing and farmers seemed to lack enthusiasm for their work - which caused a shortage of food production - the government was forced to introduce the system as an incentive for the farmers to increase production.¹³ This also gave the individual the freedom to take initiatives and use the free market, even though such was not really in

¹²See Ng Shui Meng, *loc. cit.*, p. 345; see also Ton Long, "Escape into Laughter," *Far Eastern Economic Review*, November 6, 1981, p. 47.

¹³See *Kompas*, March 27, 1982.

conformity with the building of socialism actively underway in Vietnam. In other words, there was a change in the economic system towards economic pragmatism. The problem was how to continue to develop such an economy. Investment in certain fields would have perhaps provided an answer, although that seemed rather difficult for the Vietnamese government to try (mainly because of problems related to the Indochina conflict). In addition the influence such an economic system would have on the government policy of building socialism and resolutely defending a socialist Vietnam had to be taken into consideration.

Apart from the agricultural sector, the industrial sector was also experiencing difficulties; in fact it had grown less than that of agriculture. The production of basic commodities needed by the people was difficult to increase mainly because of the lack of raw materials and unrealistic planning. Inadequate foreign exchange reserves forced the Vietnamese government to follow a policy of strict import restrictions of all goods -- which affected industrial output.

Improvement in the industrial sector began to be apparent in 1981 after the introduction of contract wages. Light industry was given priority, especially the production of essential goods that would help improve the living conditions of the people. Small industries such as handicrafts in the form of cooperatives, also used an incentive system by paying higher wages to those who produced more. In this way Vietnam hoped to be able to increase production. The question remained: wasn't the Vietnamese government policy heading towards revisionism (or capitalism) by providing these material incentives? The head of the State Planning Commission, Nguyen Lam, stressed "This is not revisionism." We only recognize three interests: the state, the collective and the individual. The one thing we criticize is a bureaucracy and a system where the centre controls everything. This does not give the worker the opportunity to take initiatives. Now we are stepping up the anti-bureaucracy campaign. This has been well-received by the majority of the people, workers and party cadres. Certainly, there are a number of conservative groups, only a few, that are of the opinion that material incentives are not good.¹⁴

Evidently the Vietnamese government policies mentioned above (both in agriculture and industry) have slowly brought results in the form of increased production, although there is still the problems of price rises for a number of essential items, wages have not been increased and corruption is still rampant. These problems are still too difficult to be quickly overcome while the state

¹⁴See Nayan Chanda, "Planning for Prosperity - Without Revisionism" (interview/Nguyen Lam), *Far Eastern Economic Review*, February 27, 1981, p. 33.

economic system has not yet improved. The increase in agricultural production can probably provide some hope, as can rising exports of other commodities.

The Fifth Vietnamese Communist Party Congress also accepted and announced a number of new steps in the economic field, including opposition to bureaucratism, doing away with the system of state subsidies for the workers and the decentralisation of decision making in management.¹⁵ The decisions of this congress confirmed the economic policies that had been already under-way for a number of years. However, an outline of the future Vietnamese economy will be determined in the next state development plan. The congress also decided that the new party leadership and government would draw up the next five year development plan (1981-1985) and prepare for the plans to come by taking effective political action to resolve the problems facing production and the livelihood of the people.¹⁶ It is possible that by reelecting Le Duan and Pham Van Dong there will follow moves towards economic liberalism and greater individualism within the framework of socialism. The new slogan that has appeared in Vietnam is "Egalitarianism promotes sluggishness and a sense of irresponsibility," and socialism is no longer questioned. What has to be noted are the three interests¹⁷ mentioned earlier in this article. However, it is still difficult to determine whether the policy now being carried out by a Socialist Vietnam (of providing material incentives, decentralization, etc.) can be proclaimed to be an alternative to the policy of centralization and egalitarian socialism, or whether it is only temporary in nature and being used merely to overcome the present economic crisis. As Vietnam wants to build socialism it is more likely to be the latter, because the thrust of ideological emphasis and party organization remains consistent. Thus Nguyen Lam was right in saying that it is a misconception that Vietnam is moving in the direction of revisionism or capitalism. Future developments will most probably still be determined by the implementation of the Vietnamese government policy as outlined in the third five year plan.

CONSOLIDATION OF SECURITY TOWARDS DOMINATION IN INDOCHINA

Overseas political observers often describe the present economic crisis in Vietnam as the result of its conflict with China and its attempts to dominate Cambodia and Laos. This can probably be verified. Because of its role in In-

¹⁵See *Sinar Harapan*, April 1, 1982.

¹⁶See *Suara Karya*, April 2, 1982.

¹⁷See *Kompas*, March 27, 1982.

dochina and the conflict with PRC, Vietnam has had to channel its resources into defence (estimated at more than 50 percent of its budget). And as a result of these involvements in the region, Vietnam has become isolated from the international community and the proses of economic development has been obstructed. However, even without militarization, whereby most of the budget is channelled into defence, Vietnam would still be experiencing economic crises (especially a food shortage), among other things due to the long period of war, natural disasters as well as a lack of planning and co-ordination in developing the economy.

The slowness of the development process in Vietnam is evidently related to its perception of an outside threat to its national security. It is this that has motivated the Vietnamese leadership up to now, to determinedly link its economy with defence in the face of the enemy. The economy they proclaim is a war economy, and the outside threat repeatedly mentioned up to now has been China. This is why it is not at all surprising that Vietnam has channelled more than half its budget into national defence.

Beginning with its border conflict with Cambodia, it seemed that Vietnam felt that if the situation was allowed to continue, its Western border would not be secure and this would badly effect the effort to integrate the South -- which they found much more difficult than they had expected. And what was more important as far as Vietnam was concerned was that behind the security threat on its Western borders was the Pol Pot/Ieng Sary regime supported by China. This is what motivated Vietnam to invade Cambodia at the end of 1978 and topple the Pol Pot/Ieng Sary regime. In this way Vietnam also tried to end its historical antagonism with the Khmers (Cambodians). Heng Samrin was then installed as the leader of the new government in Cambodia. And so as to secure Heng Samrin's position, Vietnam stationed around 200,000 troops in Cambodia. It appears that the presence of Vietnamese forces in Cambodia will be maintained because if Vietnam allowed the pro-Chinese Khmer Rouge regime to seize power again in Cambodia it would mean that it would be permitting a threat to Vietnamese national security. For the same reason, Vietnam has stationed about 40-50 thousand troops in Laos, mainly in the North, bordering the PRC.

The border incidents and the desire to liberate the Cambodian people from the oppression of the Pol Pot régime, were two reasons why Vietnam invaded Cambodia and toppled the Pol Pot/Ieng Sary government. In economic terms Cambodia would be expected to help the food situation in Vietnam (Eastern Cambodia which borders Vietnam was a rice bowl before the Indochina wars). Yet Vietnam appears to want something more from Cambodia, one of the Indochina countries. Apart from the ideals inherited from "Uncle" Ho Chi Minh (founder of the Indochina Federation), Vietnam requires a special rela-

tionship with Cambodia (and for that matter, Laos) to guarantee that its security in the Indochina region remains free from outside threat, especially from China. However, unlike Laos, the Pol Pot government in Cambodia rejected a peaceful settlement of the dispute. This is why war was the only way for Vietnam to make the Khmers accept such a special relationship. Accordingly, Vietnam invaded Cambodia and installed the Heng Samrin government with which it signed a friendship and cooperation treaty (February 1979). A similar treaty had already been signed with Laos (July 1977). And so for the time being it can be said that Vietnam has successfully consolidated its security and authority in the Indochina region. It has not been unsuccessful, though, in wiping out the remnants of the Khmer Rouge in Cambodia. It appears Vietnam will continue to defend its special relationship with the two above mentioned countries, as stated by National Chairman Truong Chinh to the National Assembly at the end of December 1980. No matter how difficult the economic situation and daily life may be, Vietnam must increase its defence capabilities to defend the homeland and fulfill an international responsibility, especially towards Laos and Cambodia.¹⁸ The Truong Chinh statement implicitly acknowledges the burden Vietnam bears -- both as a result of its special relationship with the two countries (especially, the cost of the war in Cambodia) and the rising cost of defence. As a result the Vietnamese economy has not grown, even though the Soviet Union has provided aid amounting to 3-6 million dollars daily to finance the Vietnamese occupation of Cambodia. Even so, the Vietnamese government seems willing to accept this reality.

To support its efforts to guarantee its national security, the Vietnamese government requires its people to be prepared to take up arms at any time. Military exercises are carried out intensively. The policy of the Vietnamese government is to constantly remind the people of the outside threat to their existence (especially from China). The border war with China in February-March 1979 is proof of the danger. And this is why such preparedness needs to be intensified in the midst of the struggle to overcome problems in the economic field. The threat from PRC is still a bogey man that cannot be ignored, for at any time a "second lesson" could come for Vietnam.

THE VIETNAMESE PRESENCE IN CAMBODIA

It is clear that the presence of Vietnamese troops in Cambodia is also related to the China threat. The same applies to Vietnamese endeavours to keep their special relation with Cambodia (and Laos). However, this only makes it more difficult to resolve the Cambodian problem. The Vietnamese govern-

¹⁸See Nayan Chanda, "An Ideologue in Charge," *Far Eastern Economic Review*, July 10, 1981, p. 16.

ment has repeatedly said that its military involvement in Cambodia will end only when the PRC is no longer a threat to Vietnamese security. The Vietnamese refusal to withdraw all its troops from Cambodia is not unrelated to a latent Chinese threat. In concrete terms, Vietnam wants the PRC to cease aiding Pol Pot (the Khmer Rouge) and other groups of reactionary Khmer, cease armed provocation and military pressure along their border with Vietnam and Laos, resume negotiations with Vietnam to resolve a number of issues concerning relations between the two countries, and sign a non-aggression and peaceful coexistence treaty with the three Indochinese states.¹⁹ To what extent the above Vietnamese statement is reliable remains to be seen. Still, it is difficult to imagine that the PRC would accept the Vietnamese conditions (except, perhaps, in bilateral negotiations), as the PRC also has its own interests in Cambodia, especially since Vietnam has been moving closer and closer to the Soviet Union, which China regards as the greatest threat to its security. Even supposing the PRC agreed to cut off aid to the Khmer Rouge, this would enable Vietnam supported by the Soviet Union, to completely dominate the Indochina region. This would also enable the Soviet Union to encircle the PRC, not just from their common border in the North and West, but also from the South. The armed provocation and military pressure China carries out along its borders with Vietnam (and Laos) is meant to divert some of Vietnam's pressure upon the Khmer Rouge in Cambodia. In this way China hopes to retard Vietnamese efforts to wipe out the remnants of the Khmer Rouge, nowadays pressured into the Western part along the entire length of its border with Thailand. This means that the PRC still has the opportunity to return the Khmer Rouge to power. However, how long such a situation can be maintained, depends upon their perceptions, as the Cambodian issue is actually a problem between the PRC and Vietnam (supported by the Soviet Union). This does not mean that efforts by other parties like those of ASEAN are to no avail, but it would be difficult to achieve the desired results in such an endeavour if the disputing parties concerned are not directly involved.

Meanwhile the PRC is not prepared to sign a non-aggression pact and peaceful coexistence treaty with the three Indochinese states, because it would mean that in so doing it would be implicitly recognizing the existence of an Indochina (Federation) with Cambodia and Laos under Vietnamese protection. PRC is especially opposed to this because Vietnam is a Soviet ally. The PRC does not want an Indochina Federation, no matter what it is called, because this would mean that the Soviet Union would be free to gain a strong foothold and to expand its influence in the region and in Southeast Asia in general. The PRC's displeasure was exemplified by its invasion of Vietnam in February 1979.

¹⁹See Sabam Siagian, *loc. cit.*, p. 7; see also Michael Morrow, "A State of Balance," (interview/ Nguyen Co Thach), *Far Eastern Economic Review*, January 29, 1982, p. 16.

CONCLUSION

Up to now Vietnam has been forced to accept the consequences of its military intervention in Cambodia - the extra load on its economy and obstruction to its development. As a result of its actions, Vietnam has also become internationally isolated and a number of countries, as well as international bodies, have restricted or postponed aid to Vietnam until it is prepared to pull its troops out of Cambodia. This is one of the reasons that the Vietnam economy has come to a stand-still, as Vietnam is basically not yet able to develop self-sufficiently. The situation has been exacerbated by bad weather (natural disasters), declining morale, and unrealistic management and planning. So as to improve its economy and raise domestic production, Vietnam must diversify its contacts with outside countries and receive international economic aid. However, as long as the Cambodian problem remains unresolved, so too do the problems entailed (in getting outside help). This is why Vietnam, whether it wants to or not, must still depend on aid from the Socialist bloc and especially the Soviet Union. Vietnam's efforts to diversify its relations with the Western powers have had limited success and most of the aid it receives from them is humanitarian, although there are also those who are beginning to provide development aid (such as that of France, Belgium, Holland, Sweden, India and various UN bodies especially FAO and UNICEF). Yet the Vietnamese government still evidently defends its position in the Indochina region and is prepared to accept the situation. As far as Vietnam is concerned national defence, the integration of the Indochina states and economic development are equally important. The threat to its national security is regarded as a threat to the whole Indochina region. And this threat still resounds, making mobilisation imperative. The consequences are that investment in the defence sector is continuing to get priority while development comes second. Thus the Vietnamese people still have some time to wait before they can enjoy the fruits of development. How long such a situation can continue is difficult to ascertain. It depends on the Vietnamese administrators and whether the economy they implement remains a war economy or whether, in implementing stage three of the development program, economic development will be given priority and the budget for the defence sector reduced. It also very much depends on the Vietnamese perception of the threat (PRC) to its national security. Namely, whether the PRC is still regarded as the chief enemy, both expansionist and hegemonist, so that vigilance is required. The answer will very much influence how the Cambodian issue is resolved, because whatever action Vietnam takes in Cambodia is part of its strategy to ward off the political expansion and hegemony of the PRC in Southeast Asia and its antagonism with Vietnam.

The Succession of the Indonesian Elite

A general election was held on May 4, 1982. The People's Consultative Assembly (MPR) that is the product of the election will in its 1983 session choose the President and Vice-President. As he is authorized to do, the President will appoint those who will sit in Cabinet. According to Ali Moertopo, President Soeharto -- who will be reelected -- will appoint more from the younger generation, yet this does not mean that he will leave out the older generation. Nevertheless, in his speech of state of 16 August, 1982, the President noted that the "Generation of 1945" -- a generation of (freedom) fighters who presently occupy many governmental posts -- have entered the final stages of their period of service. That generation represented by the "figures of 1945" will, in a physical sense, gradually be replaced by the future generation. This process of changeover in the political and social life of Indonesia is known as *regenerasi*, roughly translated as "succession."

Long before the President indicated this in his speech of state, many social figures and government officials had given their opinions on this matter in the mass media both in the form of articles or expressed in speeches and interviews. The discussion has centred upon several interrelated issues: When should such a changeover occur -- is the generation to succeed ready for it? What system should be used -- cliques or should it be open to all? Is the succes-

sion to be planned or unplanned? And even more importantly, is the basic material of that '*regenerasi*' individuals or is it their spirit? Many opinions concerning such matters have been expressed in newspapers, some of which we will quote here.

THE MEANING OF 'REGENERASI'

Writing in the daily newspaper *Merdeka* on the question of reform for the better functioning of administration, Pitut Soeharto expressed the opinion that its essence lies in reorganizing staff who are no longer productive, whether physically or mentally, and their replacement by staff of greater productivity in carrying out their function and which also possess great dedication to the state and country. Pitut Soeharto went on to say, as reported by *Berita Buana* 21 January 1982, that in handing over the reins to our successors we must preserve the nation's continuity in its special character and its aspirations: "In the process of *regenerasi*, the history of a nation should proceed where one era makes its contribution to the following era, and all era are interwoven into one unified whole. The dimensions of time and different social conditions will naturally mean that every generation will have its own special characteristics and role in the overall history of the nation. Nonetheless, we must always take care that the particular character and part played by one generation should not entail its becoming disunited with this continuity."

The Governor of Bali Ida Bagus Mantra, as he is quoted by a columnist of the *Antara* news agency (20 August 1982) said that what is

needed for the process of *regenerasi* is to cultivate the fundamental values of the succeeding generation. Those fundamental values are the basis, direction and objective of the Indonesian nation's purpose which has as its source the proclamation of August 17, 1945. *Regenerasi* is not only to be seen as the changeover from one generation to the next in the physical sense, but must be further seen as the transformation of values. People may change, but the aspirations and the purpose declared in the proclamation must continue to be realized.

On several occasions the daily newspaper *Kompas* has presented the results of interviews with several social figures on the subject of *regenerasi*. On 28 July 1982 it presented the opinion of Dr. J. Riberu, a teacher of the history of philosophy of the Faculty of Social Sciences, University of Indonesia: "*Regenerasi* has two meanings -- the changeover of leadership and the transfer of the mentality or the special character of the nation from one generation to the next. Of these two, the more important is to realize the upbuilding and the formation of the nation's character based upon Pancasila and the 1945 Constitution."

In the same publication *Kompas* also presented the opinion of Sabam Sirait, a member of the DPR from the Indonesian Democratic Party (PDI), who said that *regenerasi* should not overemphasize someone's age but should more be based upon that individual's or that generation's fighting spirit and desire to develop. The leaders of a nation should be people of creativity, thinkers and fighters who have the spirit of 1945 Generation as their basis, who have dedication, are honest, have an open mind and a far-reaching perspective.

In an article entitled "The *Regenerasi* of the Nation," in *Kompas* of 19 August 1982, the columnist T. Hidayat Padmadinata wrote: "*Regenerasi* in the narrow sense could be taken to mean the rejuvenation of the leadership or the replacement of older by younger leaders. Whereas more broadly, *regenerasi* is the revitalization of the leadership spirit." More completely, *regenerasi* contains the elements of reform, the creation of new values, rejuvenation and at times the restoration of original

values. In the process of *regenerasi* there is contained at once the historical values inherited from the past, the materialization of today's social dynamics and the future of the periods to come.

NATURE AND PLANNING

When looked at in a physical, biological sense generational change proceeds naturally. On this matter the Minister for Information Ali Moertopo, as reported by *Merdeka* 30 July 1982, said to the press that the changeover of the executive, will take place over the next 5-10 years. "This is the period of *regenerasi* which truly involves a situation in which we must be most careful not to allow the changeover to become a time of weakness, but precisely the opposite; we should use it as an opportunity to develop strengths," he said. He continued on to say that for the preparation of the younger generation to become national leaders, a positive attitude alone is insufficient but it also requires ability and the adjustment of their skills and leadership.

At the opening of a seminar marking the ninth anniversary of the National Committee of Indonesian Youth (KNPI) the Minister for the Coordination of Welfare Surono said that the generational change beginning in the decade of the 1980s is an important ideological, economic, social, political, cultural and defence question. Here the problem is how to best make use of the existing momentum, the best way to involve, prepare, organize and equip our youth in the *regenerasi* process, Surono further said that if looked at from the perspective of the economy, generational change must be accompanied by the availability of young cadres in all sectors and subsectors of the economy. These cadres must not only think in technical and economic terms, but should have a Pancasila spirit, have religious morality and be oriented to the people's welfare.

The editorial of *Suara Karya*, 1 June 1982, noted that history has shown that *regenerasi* can occur in two ways: planned or unplanned. A forward-looking nation will generally use

the first system, namely by forming cadres. Cadres are created and cultivated systematically. Cadres thought to be nature and possessing ability stage by stage become involved in field activities. *Suara Karya* noted that with the implementation of what has been called a "system of merit," since the beginning of the New Order the government has put into effect well-planned development of cadres. Government cadres are, for example, no longer judged according to their political persuasion as was previously the case, but according to their achievements and other factors with which they may be endowed.

T. Hidayat Padmadinata wrote that good leaders can only be produced where there is also good education and training for leadership through the activities of formal and social institutions. The forming of cadre is the qualitative element in *regenerasi*. The most successful process of creating cadres does usually not take place in luxurious buildings but where concern is forged in the environment of struggle.

In an interview held by *Kompas* of 19 July 1982, Chairman of the DPR/MPR Daryatmo rejected the view that the generational change-over now occurring was taking place unfairly or unnaturally, or that it had been "fixed," controlled or contrived. As if those to replace the 1945 Generation came from a particular clique and were disinterested in social realities. Daryatmo further explained that "controlled" should mean that the selection of suitable candidates should be "planned."

Again on the problem of cliques and the controlling of *regenerasi*, *Kompas* of 21 July 1982 presented an interview with a member of the Supreme Advisory Council (DPA) who is also one of the CSIS directors, Harry Tjan Silalahi, who believes that the younger generation will naturally replace the older and that this will occur in all fields. It is thus natural for someone to prepare, either directly or not, their future replacement.

By "controlling" Harry Tjan Silalahi meant preparing someone by motivating someone to have a sense of purpose and facilitating their development according to their talents.

This can be done directly or indirectly; directly by the government in preparing political cadres. For example, Golkar prepares its young Golkar staff who will at some later point hold a position in the government. In an indirect way the government provides general education programmes so that those involved become expert in their field and will at some stage be eventually responsible for leading in their field. This is termed indirect cadre forming to provide cadres for the nation.

Harry Tjan Silalahi could accept cliques in the sense of political arrangements. It is natural for the government or an individual to have personal political cadres. However, this understanding of clique cannot be applied to the preparation of cadres for the nation. Harry Tjan believes that education must be open to all and not restricted to certain individuals.

Safri Sairin, a lecturer at the University of Gajah Mada in an interview with *Kompas* of 29 July 1982, expressed the opinion that we need not fear a system of cliques for there was a tendency towards a clique system in every individual or group, for both advanced and developing nations. Safri Sairin believes that it is impossible for a system of cliques to become a total monolith for in a clique there are also formed smaller cliques -- until it eventually comes down to individuals. Thus we need not fear that a system of cliques will be able to influence all final decisions.

THE YOUNGER GENERATION

Ridwan Saidi, a member of the DPR from the United Development Party (PPP), says it is still too early to evaluate the next generation's ability to control the central leadership. Yet he explained that cadres born in the midst of progress, such as that of today, are truly cadres of integrity. Because they are born and brought up in a bureaucratic environment it is not surprising if these cadres have opportunities to act freely in drawing on learning and experience. This also involves the element of funding which may be an obstacle to a cadre born beyond bureaucratic circles. But the opportunities they have also causes a shortcoming in that they are

insensitive to problems in society. Further, Ridwan Saidi said we need not fear the excesses that may arise from the process of *regenerasi* since in Indonesia it is not a total process (*Kompas*, 26 July 1982).

By taking the examples of Cosmas Batubara, the Junior Minister for Housing, and Abdul Gafur, the Junior Minister for Youth Affairs, Sabam Sirait judges today's younger generation as ready to later replace their elders in government. For in government departments many young people hold responsible positions — as director-generals, for instance.

On the preparedness of the young generation to take over the reins of leadership, in an interview for *Kompas* Harry Tjan Silalahi op-

timistically said that the present younger generation is certainly able. That there are those of the younger generation who are drawn into improper activities or who do not do the right thing once they have become leaders need not make us too pessimistic. For there are still many with aspirations and idealism. Harry Tjan Silalahi stated his confidence that the fact today's youth has not been touched by the bitterness of the struggle for independence need not cause problems. For whenever someone has been given responsibility, he will naturally seek for and study the roots of his nation to guide him. In addition, every generation will have its own historical challenges which must of necessity be faced and solved. Harry Tjan Silalahi believes that, provided we proceed consciously, the process of the *regenerasi* of our leadership need not be feared.

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The Problem of Getting Data on Indonesian Economy

The Indonesian Economy, edited by Gustav F. Papanek, New York, Praeger, 1980, xxi + 438 pp. This review article by Hadi Soesastro is translated from *Tempo*, 1 August, 1981.

In economic literature there are growing demands to be able to support every argument and conclusion with data and empirical analysis. The reason is very simple: without the support of hard data, no matter how logical its reasoning, an analysis must remain within the realm of the purely hypothetical and its usefulness for policy formulation will be limited.

Yet behind the simplicity of this reasoning are to be found a variety of problems. This is reflected in the apologies of the writers for the shortage and the shortcomings of the data they use. These days it is generally considered that a good work is one that explicitly points to such shortcomings and which honestly records qualifications to the argument and conclusion arrived at.

With the use of data, economics endeavours to be more scientific and it is precisely for this reason that economics is forced to become something of an art. For there will always be

difficulties found in obtaining social and economic data which is complete. Economics is an art because it requires a special skill to draw benefits from data which is often far from perfect. The examination of data and theory must be done all at once and it is often difficult to obtain definite figures that are reliable.

The book Papanek edited has not escaped these difficulties. Apologies are repeatedly offered in the essays in the book. It is frequently stated that Indonesian data on investment, imports and the results of consumption surveys is often incorrect and inconsistent. Some further data is based on dubious extrapolations and methodologies, and some has not been arranged as it should have been.

However, the problem of obtaining data is not only technical in nature. The main source of errors in data is to be found in attitudes to the government from both society, which provides the data, and from the local bureaucracy which collects it. It is also mentioned that there is a tendency for higher levels of the bureaucracy to conceal or to reprocess data for its own benefit (page 4).

Of the 12 essays in Papanek's book the most relevant and most interesting, from the point of view of obtaining correct data, are those of income distribution in Indonesia (Chapter 2-5). Those who are making a serious study of the problem of income distribution would also experience the "struggle" these writers must have had in using the available data.

Perhaps they will also amuse themselves with two questions: firstly, that these writers

seem unable to solve this problem of correct data. Secondly, so many political and economic scholars have wasted so much energy in vain to try to stimulate a debate on income distribution in Indonesia based on data the weakness and incompleteness of which is not appreciated.

THE LAYMAN

People will benefit from reading Papanek's book, particularly from the perspective of the art of using existing data - even though it is far from complete. It is also because of this that the readership will remain limited. Nevertheless the essays in the book reflect the quite great advances made in collecting data during the 1970s.

Ten years beforehand, writings were collected by Bruce Glassburner and published in a book bearing the title: *The Economy of Indonesia*. Glassburner faced the same problem, especially in selecting essays on the Soekarno period when economic data was very hard to obtain because of the breakdown in the government apparatus, whose task it was to gather statistics, and because both Indonesian and foreign economic scholars met many obstacles from the government in this area (p. vii).

Other writings in Papanek's book are more a descriptive analysis of problems relevant to policy formulation, well-supported by data. For instance, there are those relating to inter-governmental fiscal relations, industrialization policy, food and nutrition policy, Japanese capital investment in Indonesia and trade with the Eastern European states.

The chapters can be read by those who feel they are laymen in these fields, apart from a chapter on a macro-economic model for Indonesia. This last should be studied closely by advanced university students, if only to acquaint themselves with looking systematically for the important inter-connections in an economy.

This book clearly adds to the literature on the Indonesian economy, and it was certainly published because there was felt to be a short-

age of works in this area. But we may approach this book with a feeling of shame since almost all its contents have been written by foreign scholars, apart from one which Saleh Afiff co-authored. In Glassburner's book of ten years ago there were two original works by Indonesia's own scholars: Mohammad Sadli and Ali Wardhana. Even this was also felt to be most unbalanced by Glassburner himself.

CHALLENGING

The defence of Glassburner, the chairman of the Field Staff at the University of California's Indonesia Project in 1968-1970, was that since 1965 Indonesia's economists were pre-occupied with pressing economic problems. Even though the quality of the decisions made in the economic field improved, it resulted in a drastic decline in academic research. The limited number of professional economic scholars were overoccupied by also having various government positions (pages vii-viii).

Papanek does not offer a similar defence since his book is simply a collection of articles by members of the Development Advisory Service of Harvard University. It was requested by Prof. Widjojo Nitisastro, acting as Chairman of Bappenas (National Development Agency), to assist in organizing inputs from overseas research to improve the analytical basis in preparing Repelita II (Second Five-Year Plan: p. v).

It may be that shame is not the best way to stimulate Indonesia's own economists to produce more substantial work. As Papanek says, it is very difficult for foreign economist who only spend a short time in a country to decide whether data can be relied upon and to distinguish a question which is only interesting from one that is truly important; similarly, to distinguish causal factors from factors which are only the result of change (p. vi).

This book by Papanek is a true challenge to Indonesia's economic scholars to produce better works. It is clear that we cannot yet provide this evidence.

Economic Development and Equal Distribution: Alternatives for the Third World

Economic Development and Equal Distribution (In Indonesian: *Pembangunan Ekonomi dan Pemerataan*), compiled by Thee Kian Wie, Jakarta, LP3ES, 1981, xiii + 274 pp. This review article by Sahat Marulitua is translated from *Suara Karya*, 1 June 1982.

With reference to the Broad Guidelines of Indonesia's State Policy (GBHN), the economic development strategy we are applying clearly places its main emphasis upon economic growth. This will slowly but surely stimulate the growth of other sectors such as the social, legal and political-both through managed planning and automatic trickle-down effects. Such as strategy requires stimulating the economic sector and large industries, a process which is catalysed by the owners of capital and the support of foreign aid. It includes government savings derived from the government sector and the activity of domestic private enterprise.

The opening phase of this form of development strategy spurred an annual economic growth rate of 7 percent in Indonesia. The initial activity in economic development that rests upon this growth strategy has provided the high income sector (making up 20 percent of the population) with a share of GNP growth of as much as 56.73 percent. The 40 percent of society with middle income received 32.12 percent, whereas the 40 percent in the low income social sector received only 11.15 percent of this growth in GNP.

Indonesia is not the only developing state to apply this kind of economic development

strategy. Bangladesh, India, Sri Lanka, the Philippines and a number of black African and Latin American states have also effected programmes similar to that operating here. Of the varying results for the new states choosing this development strategy that a number of experienced researchers throughout the world have been able to study, various conclusions have been reached that certainly do differ one from another.

Nevertheless a general agreement has been reached and is supported by empirical data and facts. It has been ascertained that economic development built upon the pursuit of high economic growth is "an sich" always accompanied by the appearance of social and economic asymmetry and income inequities between the middle and high income sectors on the one side, with the low income sector on the other. The negative excesses produced not only deepen this imbalance relatively, but also worsen the level of absolute poverty of the lower income sector which is the largest part of the total population.

Returning to the original problem, rapid economic growth forces the modern economic and advanced industrial sectors to be spurred on with the maximum of force. To pursue efficiency and output that complies with the target, the introduction of capital-intensive working methods and high technology is unavoidable. The imported technology is obviously laden with the expertise from whenever it was brought. The complexity of the management and technology introduced, demands that both medium-and highly-skilled labour exists. However, the education costs that the largest section of society cannot afford makes the opportunity for them to participate in the industrialisation process even narrower. Unemployment continues to increase. Other negative affects are the creation of absolute poverty, an imbalance between village and city, the isolating of the traditional economic sector and a number of other risks that are too numerous to be listed one by one.

Based on this reality, economists and international political figures have criticised this

Third World development strategy and made an effort to offer some alternative measures.

The whole path of the development mechanism and its critique is offered briefly and concisely in a book with the title "Economic Development and Equal Distribution" compiled by the economist and experience observer from Leknas-LIPI (National Institute of Economic and Social Research) who is no longer a stranger to any of us, Thee Kian Wie. Apart from offering the critiques, the book also seems quite fair, for the criticism put forward are always accompanied by data and concrete proof and includes suggested alternatives for their solution.

For the case of economic development in Indonesia in the period 1970-1976, economic growth showed an annual rate of 7.7 percent. This growth figure is certainly less than the figure and the rate of growth of the economy that took place in South Korea, Japan, Taiwan or Singapore. Yet it must be recognized that the growth rate for Indonesia is far above the rates of economic growth that occurred for Bangladesh, India or Singapore. In the same period, Indonesia's per capita Gross Domestic Product grew by 5.7 percent annually (see page 8). Comparing these figures with the poverty line declared by Sayogyo (p. 16), it is concluded that Indonesia has not revealed its maximal capacity in connecting rapid growth to a more equal income distribution while rapidly reducing the level of poverty (pp. 18-19). One matter worth noting in the process of the economic development we have carried out, is that the number of the poor in Java and Madura has been reduced from 61 percent to 58.6 percent. However as a result of population pressure, growing by 2.4 percent annually, the number of the poor has actually been growing: from 38 million to 40.5 million (p. 17).

On the basis of that fact, there are two possibilities presented:

1. Although the direction of her development has been correct and suitable, Indonesia has been unsuccessful in connecting growth to a more equal distribution of the product of that growth. The reason may be that the trickle-down strategy we have

- recently been following takes a long time.
2. The direction of the development now being applied is inappropriate, because it has patently not been able to solve national problems of a fundamental nature (pp. 22-23).

Whatever the conclusion reached, it would seem to be most useful to study the unique and special aspects of the type of development strategy applied by neighbouring states that have proved capable of solving the negative questions involved in economic development. These then may be applied in our country (p. 25).

As further operational alternatives, the book presents seven development models which, it is hoped, can maximize the benefits and minimize the negative effects that often appear (p. 80).

The methodical and directed unfolding of the problem allows every reader to grasp more easily the meaning contained within. Major figures, as discussants of the questions laid out in the book, leaves the reader laden with fresh thoughts and expressions relating to the development of the developing states. And he can be assured that this book should be studied by anyone interested in development and related issues.

The Meaning of 'A Pancasila Economy'

The Economic System According to the Pancasila and 1945 Constitution (In Indonesian, Sistem Perekonomian Menurut Pancasila dan UUD 1945) by Tom Gunadi, Bandung,

Angkasa, 381 pp. This review article by Mh. Hatta Mashar is translated from *Pelita*, 9 February 1982.

The question of an economy based on Pancasila and the 1945 Constitution is still interesting to discuss, because the Pancasila Economy question is still a topic of debate today. There has as yet been no consensus reached on just how to apply the philosophical bases of Pancasila and the 1945 Constitution to the economy. Various opinions have been hurled at each other using various arguments. Pioneers in discussing the problem of the Pancasila Economy were lecturers of the Gadjah Mada University in Yogyakarta, Dr. Mubyarto especially.

In his book "Ilmu Ekonomi, Ilmu Sosial dan Keadilan" (Economics, Social Science and Justice) Professor Mubyarto summarized the meaning of the Pancasila Economy. We must first of all acknowledge that the meaning of a Pancasila Economy, which is more and more talked about in our everyday conversation and in popular writings, is actually still difficult for us to define. Yet society generally seems to very much desire the existence of this Pancasila Economy and even our policymakers and administrators want to obtain the assistance of theoretical specialists to organize it.

Because of these varying opinions, to define it exactly we still need continual discussion and debate. Studying the book "The Economic System According to Pancasila and the 1945 Constitution," the writers themselves say that in this connection we should be aware that the Pancasila is not a ready-made conception and the 1945 Constitution is not in itself a complete plan that can serve as a sacred charm to guarantee social and economic welfare (although it has previously stated to be such). But as philosophy Pancasila provides inspiration, a motivation spirit and great competence for solving in a humanitarian way the problems of a common existence, and the 1945 Constitution gives sound legal provisions from the technical aspect.

The book discusses questions relating to the economy as a whole. It begins with the question of the Economy and the Economic System (1-3a), Chapter II is about the Economic Foundations according to Pancasila and the 1945 Constitution (40-71).

We will see that Pancasila and the 1945 Constitution is complete and is able to guarantee the sound solution of these problems ideally and technically. Once the principles and moral provisions are applied to such problems, everything else is put into motion just as, to use an analogy, the cogs in an engine turn according to the rotation of the crankshaft. This does not imply that the morality of Pancasila or the provisions of the 1945 Constitution are static. The principles themselves can continuously be refreshed and developed and even given new dimensions without altering them (43).

This thick volume is divided into 10 chapters that analyze various activities relating to the economy such as the cooperatives (Chapter VIII: 208-267). Chapter 10 discusses matters relating to development and economic construction in Indonesia. This final chapter is interesting to read since it is directly related to the present. This is especially so since the economy is explained according to its periods: such as the period of the revolution (1945-1949) on page 285, up to the period from 1966 to today.

From Labour Problems to the Pancasila Economy

Professions, Participation and Economic Development: A Selection of Papers of the Eighth ISEI Congress (In Indonesian: Profesi, Partisipasi dan Pembangunan Ekonomi

Kumpulan Paper Terpilih Kongres ISEI ke VIII) compiled by Djuneidi Hadisumarto et al, Jakarta, Faculty of Economics, University of Indonesia, 1981, iv + 178 pp. This review article by Prijono Tjiptoherijanto is translated from *Eksekutif*, October 1981.

In keeping with its title, this book sets out to throw light upon various aspects of Indonesia's economic development to date, from both the perspectives of practical experience and theoretical analysis. As a study by specialists who are associated into a professional economic body, it is expected that the papers collected in this book would be a contribution by these specialists participating in the present development era. For that reason the book is divided into several sections.

The first section contains welcoming addresses delivered by President Soeharto concerning the role of economic scholars in today's development era. While Emil Salim, as Chairman of the Association of Indonesian Economic Scholars (ISEI) in the period 1975-1979, reminds us of the responsibility of the economist as an intellectual to the effort to distribute equally the product of the development that has been achieved to date. Meanwhile, the late Mohammad Hatta, well-known for his views on nationalism in the economic arena, emphasizes the importance of purely implementing the 1945 Constitution, paragraph 33, in our everyday actions and activities.

The issues included in the book "Profession, Participation and Economic Development" are divided according to particular subjects, such as the State Economy and the Economic System. Emil Salim's version of the Pancasila Economic System is also reviewed within it. Then there is presented the problem of agriculture not only in relation with other sectors of the economy, but factors that influence the increase of rice production in Indonesia are also looked at. The problems of energy, transportation and industry are contained in the second section which also contains

the various questions mentioned above. The section is concluded by raising some interesting questions in suggesting problems for the co-operations as well as the social-economic aspect of the non-indigenous sector's participation in the economy.

The third section is a communication forum for specialists and contains short written pieces intended to open the opportunity for more detailed discussions. The problems of employment opportunities and labour, which have recently grown more intense, are discussed in this section - as well as the private sector's mode of operation. Consistent with its title, the third section does not attempt to provide answers to the problems put forward, but only offers hypotheses, the validity of which require more detailed examination. That is why this section serves only as a communication forum for specialists.

The theory and the techniques for examining hypotheses which generally apply for research projects is the chief presentation in Section Four which bears the title: Research Methods. The compilers of the book apparently hoped that this section would provide the intellectual character that is the professional identity of the writers whose papers are collected into "Profession, Participation and Economic Development." Two quite systematic research methods, equipped with an econometric model which can be discussed at length both theoretically and practically, are offered in the final section of this small book. This section is intended to spur those specialists who are at the moment enjoying the luxury of a tenured posting to be aware that to carry out systematic research that can be accounted for according to their specialty and profession, careful and clear explanation of both the model suggested and the method used to analyse it, is required.

The papers included in the book are also no less interesting. The paper on the agricultural sector for instance. By analyzing both the direct and indirect forward linkages and backward linkages, the article by Mohammad Nazir draws up an inter-industry-type of industry "rank" to show which industry has a stronger

linkages with another sector. Similarly for the linkages with the labour force. In this way we can better know which sectors should be developed and which sectors can not be expected to have strong linkages; especially for the absorption of unemployment, which at the moment is a significant problem for our economy.

Sri Edhie Swasono's paper on labour problems emphasizes the conventional questions that we so often hear. But it also deals with questions that have not yet been properly handled such as the problems of tense workplace relations, a minimum wage, more effective use of tripartite bodies, the question of opposition to foreign capital, and others in this vein. Whereas Hidayat questions the concept of developing the cooperatives movement in Indonesia. Says Hidayat, the concept of cooperatives itself is divided into two streams, the idealistic and the pragmatic. Both these streams are based on government sponsorship so that in developing cooperatives it can be questioned when can the concepts that is longed for be achieved: an idealistic concept, but one that is non-state-sponsored.

In the section on energy, transportation and industry we can also find an interesting article to be considered in more depth. It involves the transport sector and was written by a Jakarta ISEI group from the Department of Communication. The article sets out to illuminate the transport question in relation to the use of the energy required. From the research advanced by this group of writers who are not prepared to give their names, it can be seen that main roads transport was a most wasteful form of transportation in its use of fuel for 1980 (63.8 percent). Whereas transport by rail was the most economical, with a fuel consumption ratio of only 0.8 percent. Thus paper suggests the necessity of managing the utilization of transport facilities which are to be related to the energy consumption needs for each form of transport.

The book also touches on the question of the Pancasila Economy according to the formula of Emil Salim, the former chairman of ISEI from 1975 to 1979. As in lectures at various times, Salim describes the Pancasila

Economic System as a pendulum moving between a free market system and a guided economy, or at least one under state supervision. In which direction this pendulum swings heavily depends upon the directives and political will of the government, so that it seems this new economic system is like a "market economy with supervision." Who knows whether it is not a "supervised economy with market forces?" Of course, champions of the Pancasila Economy would be more aware of this question.

In broad outlines, this small book is pleasant to read and is free of insignificant causes presented by the writers defending their positions. It is clear that the intellectual spirit embraced by professions is reflected in papers that are well-organized in the book. If there are printing errors here and there or an unpleasing lay-out, this will be understood if it is remembered that those who published the book are economists and not artists or journalists. Simplicity is also reflected in its appearance and printing which is done simply so that it can be read. However this may be, to possess this book is beneficial for understanding and appreciating the ways of thinking and rationalisation of our economists.

History Repeats Itself?

Before the Tempest: The Upheaval in Indonesian Politics, 1961-1965 (In Indonesian: *Sebelum Prahara, Pergolakan Politik Indonesia 1961-1965*) by Rosihan Anwar, Jakarta, Sinar Harapan, 1981, 556 pp. This review article by Wem Kaunang, is translated from *Optimis*, November 1981.

Rosihan Anwar generalizes from what he sees, writes what he hears and notes his emotional response. "Before the Tempest" is very nearly a complete portrait of this experienced journalist as an individual, an observer and a victim of his profession. In silence, he diligently and carefully traced the footsteps of Soekarno who was followed by the army, the PKI (Communist Party of Indonesia), flatterers and enemies. Rosihan was adept at picking up a great deal of information from those Soekarno called his "friends," foreigners and even from those within the immediate circle of that great leader.

Some of those mentioned by Rosihan are still living, such as Nasution, intended to represent the army, but in the end he was no more than a toy for the President when he served as Minister for National Security. Subandrio and Ruslan Abdulgani clearly had unique positions under Soekarno. The fierce PKI evidently did not dare to move openly in front of Soekarno, "the dawn prince," but was forced to depend on him - even while shouting the cause of the poor and unfortunate. The PNI (Indonesian Nationalist Party), the pioneer party of former times, found it difficult and was eventually unable to shake the charisma of the great "dictator" and its leaders were overshadowed by the 'glory' of the names of the PKI leaders: Aidit, Njoto, Lukman, etc.

There is also a string of Masyumi Party figures - Natsir, Roem, Prawoto, Sjafrudin Prawiranegara - who were jailed without court procedures. Rosihan also mentions the names of army commanders such as Simbolon, Kawilarang, Ventje Sumual and others who were defeated by the TNI (National Army) and subsequently vanished from political arena. It was Nasution, active at that time, who was unable to prevent the army from functioning simply as a tool of the powerful to silence the people.

The figure of Sjahrir, the idol of the PSI (Socialist Party of Indonesia), seems to occupy a special position although he died before being released from detention. His advice, described as very astute by Rosihan, can be followed

through the book. We cannot but be impressed by the cruelty of the political actions carried out by those who become hysterical about power and lived in the shadow of fear of the collapse they were fully aware would one day occur. Sjahrir had his own, firm confidence in the intellectual ideal which became the image of the PSI as the group that considered itself the cleverest throughout Indonesia. It may be a sort of arrogance but his characteristic was maintained until the PSI had to be silenced by the authorities - on the instructions of Soekarno who did not feel "secure" of them.

It seems that Rosihan had no yearning at that time other than the destruction of a regime that had closed off the avenues of his life. The increasing misery of the people is Rosihan's chief reason for exposing the darker side of the government of Manipol-USDEK (Guided Democracy) which was able to persist in making war at a time of empty stomachs. West Irian was captured not by force of arms but because the United States did not wish Southeast Asia to become a cauldron of unrest and thus endanger its domination of the region. As Subandrio said hopes were high that America would provide loans and thus the quarrel would be ended. Economically the Indonesian government was bankrupt and without foreign aid, according to their thinking at the time, would fall into the valley of destruction.

The United States was, however, evidently uninterested. Indonesia was not important to them and, moreover, they were uncertain that aid provided to the Indonesian government would be used as it should be. Thus, despite promises the expected aid never eventuated. Soekarno was angry and his objectives became more far-fetched. Malaysia was made the victim of his anger even though the English were entrenched there. The formation of the Federation, according to Soekarno, had to be prevented at all costs. For the President the Malaysian project was nothing more than a project to isolate Indonesia from the bastions of imperialism and colonialism. The people of North Kalimantan had to be defended by arms which, during the struggle to liberate West Irian, came from the Soviet Union.

In this chaos the PKI strengthened itself. War necessarily requires funding and this funding was taken from the pockets of the people who were already suffering. Of course what was increasingly unavoidable was the suffering of the lower classes who were faced with the day-to-day reality: eat or die of hunger. The choices were very few and the PKI emerged as a vanguard resolutely shouting for resistance to the oppressors - not the regime, but certain groups inside and outside the regime. It need no longer be surprising that the army was the main enemy of the PKI. Firstly because of the 'closeness' of the TNI to Soekarno. Secondly, the army everywhere was in a position and had the ability to prevent the rapid growth of the party - which in Indonesia involved the military area commanders issuing many prohibitions intended to reduce or prevent PKI activities in the regions. The other political parties were by then almost insignificant, apart from the Nahdlatul Ulama (Council of Islamic Scholars). However, this party too did not have leaders of the calibre of Aidit and was temporarily pushed to the sidelines.

International communist developments also influenced the PKI when it finally chose to ally with the Chinese Communist Party. Geographically China was closer, and in its conflict with Russia that party was evidently more suitable to the orientation of the PKI peasantry. From the Chinese leaders too there was derived the idea of the "fifth column" - the concept of arming the Indonesian peasantry. More and more it was the army that was blocking the party, and the concept remained just a concept. Embittered, the PKI was not short of ideas: the army's ground forces were to become the direct object of infiltration while Soekarno would be temporarily supported. The murder by the PKI of a number of generals proves that Soekarno's concept of NASAKOM (the unity of nationalism, communism and religion) was certainly an easy way for the PKI to enter and neutralize the army.

Rosihan is not recording history, but his notes are rich with the events of history. At least we can follow chronologically his version of various political incidents. I say that he "does not record history" because not all of

these recordings are based on the facts. Quite a large portion of them he "heard from his friends," are quotes from the English weekly *The Economist* or are his personal interpretation. Here there is to be found a man with all the human sympathies and grudges towards people who have once hurt him. For him, Soekarno was the reason for the disasters of that former period, both economic and political. Soekarno is a symbol of all forms of greed, inflated by the ambitions of an hysteric who made whosoever dared to oppose him into a common criminal. A feeling of revenge runs through the notes of the journalist whose newspaper, *Pedoman*, was muzzled and this he is unable to suppress. Thus we can understand that an objective assessment is not to be found in this book.

Apart from this subjective element it is interesting to observe the phenomena of this Soekarno period (1961-1964) and the paralysis of the political parties - except the PKI. This party was the exception due to its strong support for Soekarno's ideas. The other parties were no more than extras on the political stage in the scenario of the Presidential Decree No. 7/1959 - the decision of the president concerning the party system. Not only were the numbers of parties restricted, but so were their activities. The parties were dissolved by the "Nasakom-ization" of politics led by the PKI, which had a great stake in this since it did not yet officially have seats in Cabinet. The press - a necessity for democracy - was under strict government observation. The papers with a critical tone - including the Cultural Manifesto (Manikebu) papers - were quickly silenced. The others, such as *Berita Indonesia*, *Merdeka*, *Indonesian Observer*, *Warta Berita* and others, were regarded as slaves of the "Support Soekarnoism Agency." The Indonesian Journalists Association (PWI) in practice had been overpowered and had in effect become a mouthpiece for the government.

The army was subordinated. Or, for tactical reasons, it was no more than a tool for the controllers towards the controlled and was avoided by Soekarno's opponents. For "political security" hundreds of citizens were thrown into jail with no chance to defend themselves.

The arms which had been bought by, and credited to, the name of the people were directed back at the people themselves. The Darul Islam, PRRI and South Moluccan Republic revolts, initiated by local army commanders among others, had resulted in thousands of victims. All this had made the politics of security harsher. The capture of politicians was ordered and carried out by the army. It was because of the national assembly and other controlling institutions that became impotent. Such was its impotence that it supinely institutionalized Soekarno's power by making him "President for Life."

Structurally the way out of this dead-end was sought in the formation of cliques: Subandrio, Chairul Saleh and Ruslan Abdulgani each had their bureaucratic schemes. In this situation of "give no opinions, you may only quote," each played a role. Subandrio was Soekarno's personal mouthpiece, Ruslan Abdulgani was the trumpet for the President's ideas and Chairul Saleh sought to outline the basis for a Soekarno - army - Murba Party alliance. By Soekarno they were used, managed and tantalised-thanks to their ability to flatter. So fragile and dirty was this political game that in practice it closed off the possibility of a natural succession.

Politics was everything and no attention paid to inflation, the chaotic employment structure or a situation where people were starving in the real sense of the word. Economic improvement was the aim of official's declarations and a series of ordinances decreed by the government. The outcome was that food became harder to obtain. That there were 'cukongs' (godfathers) in and around the palace, corruption in the bureaucracy and disorder in the administration of state corporations had brought the national economy towards bankruptcy. In international eyes Indonesia was a symbol of the ever-suffering beggar who had contracted a blood disease, pock-marked at its very birth. Anti-Chinese demonstrations were a manifestation of dissatisfaction directed towards the well-off, an explosion of the economic sufferings of the little people and revenge towards a group who manage to hang on eternally no matter what the regime.

Not surprisingly, a fire was easily lit. Demonstrations appeared everywhere. Farmer's actions defied their oppressors, attempts to kill Soekarno occurred five times, political intrigues flourished and whispered reports became master. The two sectors, economic and political, were always connected and affected other sectors. The contradictions grew sharper and tactical considerations became the foundation for the activities of social units. The perceptive will of course see that history tends to repeat itself!

However this may be, Soekarno was not merely a historical figure because he helped to create history. He was a victim to his ambition for national unity (Nasakom), his ideological determination for a nation possessing integrity (Manipol-USDEK) and his profound love for his homeland. He was a victim of his lack of faith in those with whom he founded a nation such that he concentrated all authority in himself. He had an allergy to economic problems so that he was unconcerned with a people wedged between poverty and backwardness. The Economic Declaration (Dekon) he created was nothing but the necessity to compromise with the fact that the economy was not simply the governments concern.

But many, including Rosihan Anwar, have passed over the fact that the national awakening of this country was in part just because of all Soekarno's human weaknesses. For all his failings he found the strength to gather his people to shout in unison "bare your breast as I bare mine! "

Unrest in Islamic Thought: The Diary of Ahmad Wahib

Unrest in Islamic Thought: The Diary of Ahmad Wabib (in Indonesian: *Pergerakan Pemikiran Islam, Catatan Harian Ahmad Wahib*), Jakarta,

LP3ES, 1981, x + 351 (Second Printing). This review article is by Martin Sandy is translated from *Basis*, May 1982.

"Miracles in the world are many, there is no greater miracle than man." These words sounded clearly from the mouth of Sophocles twenty-five centuries ago. And the statement seems still quite relevant to the modern era. Even more so when related to the book: *Pergolakan Pemikiran Islam* where Ahmad Wahib -- in his diary -- talks of mankind, a man who is still roaming, searching for the meaning of life. In discussing this question, Ahmad Wahib does not provide a searching or systematic analysis. Rather, he presents it in his diary. This means that in his diary he records his personal thoughts (now available also to the public) on what he has experienced and what he has thought about. What he has recorded there is of course what he found interesting. Now we too can enjoy this most valuable book thanks to the efforts of Djohan Effendi.

Djohan Effendi, together with Ismed Nat-sir, compiled the book. I know Djohan Effendi privately; he was a lecturer of mine at the Driyarkara College of Philosophy in Jakarta. Once I was no longer a university student, I continued to have much contact with Djohan Effendi and we also exchanged ideas in his office at the Agency for Religious Research and Development. My impression was that Djohan Effendi was quite moderate, and liked to hear other's opinions. he was open to new ideas in religious matters, something which seems to be reflected in the book he has compiled. In their thoughts on Islam and their concepts, Djohan Effendi and Ahmad Wahib have the same view.

The book, *Pergolakan Pemikiran Islam*, is truly one of great value. Nevertheless, one will be startled reading the pages of this book. Many matters which are "taboo" and rarely touched on in discussions of Islam are presented by Ahmad Wahib quite plainly. It is this that causes Mukti Ali to state in the introduction that it comes as no surprise that

much of what the author writes would cause most people to frown, especially those who consider the problems he raises to be taboo and existential questions. Yet I feel that, whatever our own individual beliefs, the diary of the late Ahmad Wahib will nevertheless impress us. We can at least appreciate a youth searching and struggling with his thoughts (p. x).

The appearance of this book has caused a sensation everywhere, and in Jakarta the book is repeatedly discussed. The views of Ahmad Wahib have met much quite scornful abuse. In addition, the people behind the publication of the book have also received sharp criticism, from Prof. Dr. H.M. Rasjidi for example. Ahmad Wahib's thoughts have caused much fierce "pro and contra" debate, especially his discussions of Islam and of the Association of Islamic University Students (HMI).

Why has the book *Pergolakan Pemikiran Islam* caused so much discussion? Why are there certain people who even believe the book to be dangerous? And why are there also people who suggest that the book be banned from circulation in Indonesia? Apart from these people, there are not a few deep-thinking people of the opinion that such a book is very much needed in the modern age. Such a book is a challenge to take a step forward, and without challenges we stop. Yet if we stop, it means we retreat a step. The complexities and rationales can go on endlessly, yet Ahmad Wahib remains Ahmad Wahib. He has been slandered, even though he no longer lives (as of 31 March 1973) and can thus no longer revise his views. What is done is done, and what is passed can not change to become what will be, say the philosophers.

In many discussions, I am amazed that in the quality of his thinking Ahmad Wahib is equated with world-class figures of the calibre of Paul Tillich, Martin Luther, J.P. Sartre, Gustavo Gutiérrez and Dietrich Bonhoeffer. How wonderful if he was of the same intellectual quality. I myself am of the opinion that he is not unlike someone asking and searching in the dark. He discusses religion, the HMI, politics, culture and himself. It is evident that he had not yet found what he was searching for. He

certainly speaks frankly and simply and is not pretentious or hypocritical. As he says himself: "I don't pretend to know God's law, and especially so in front of the Association of Islamic University Students. See the notes in my diary and read how I speak plainly to them of He who I don't yet understand and a part of Who's laws I cannot yet accept. Hear my prayers, *after* my ritual prayers, which contain questions and protests to God. And what if this it is my inner soul speaking? (page 31)." Ahmad Wahib's manner of speaking is harsh and sharp. His is the profile of a skillful innovator, yet one who finds speaking in public to be difficult. He discusses religion, Mohammad, the Koran, God, moslem traditions, HMI and such like without reserve and fearlessly. We rarely discover such to be the case in the Islamic world it is thus not surprising that Ahmad Wahib's thoughts have become the object of much criticism. He has very much brought into doubt the basic foundations in Islam.

Besides discussing Islam and the HMI, Ahmad Wahib in his diary also recorded his impressions on politics, culture and on himself:

someone who was always restless. When he discusses politics and culture, Ahmad Wahib doesn't produce any new ideas, but only repeats old tunes. Whereas in talking of himself, we can see how such an aggressive person is really fragile and worried. And how tragic it is that after working for *Tempo*, his aggressiveness began to pale. As he says: "Since working in *Tempo*, which occupies almost all my time, I have almost no time to develop my own personality and attitudes. In several aspects my knowledge has increased, although on the other hand in some aspects it has evaporated. But my spiritual struggles now almost never take place. My spirit is growing less sensitive, while my mind is no longer sharp" (page 349).

The more sharp Ahmad Wahib once obtained the guidance of some Catholic priests. He experienced the warmth that comes from a good soul and good actions. He was most impressed by the attitudes of the Father Stolk and Father Willemborg SJ, an impression he summed up as: "I don't know whether God will have the heart to take my two fathers into the fires of hell" (page 41). This book is truly rich in ideas.

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